

THE NEW CAPITALISM



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THE NEW CAPITALISM

By

JAMES D. MOONEY

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JAMES D. MOONEY

INTRODUCTION

IN THIS book we have presented an outline of the ideal economic America that might live happily under an economic scheme built with the substance of traditional American political ideals, of real economic laws, and of toil.

We have called this the New Capitalism.

* * * *

When you explain to your young son why two and two are four, or three times five plus six are twenty-one, you may fall back on his building blocks to make it clear—and later, when he enters high school or college, his teachers use physical objects in the laboratories to demonstrate their propositions.

In a similar way, this book attempts to provide a means for the discussion and solution of economic problems. Whatever freshness may be found in this approach really consists in projecting into the discussion of economic problems the discipline of the methods of science; and in using physical analogies as a help in exploring and explaining economic laws.

* * * *

A remarkable improvement and a healthier equilibrium in our national economy could be hastened by a widespread understanding of economic laws, and public

acceptance of these laws in the spirit of the American tradition. Were our people to have a clear conception of the basic elements of supply and demand, production and distribution, purchasing capacity and real wages, and of the economic and social value of the American Constitution,—this understanding would have far more effect in raising American living standards than any technological advances that are on the present horizon of science and engineering.

These economic laws are simple and self-evident. Almost all men know them and apply them in their personal lives, but many are ready to disregard them completely the moment a collective or national problem is discussed. It is for this reason that they are restated here, simply, at first, and later in their broader implications. The method of presentation has been designed to bridge the seeming yet actually non-existent gap between the simple economics of housewifery, housekeeping and village life and the large-scale economics of America.

JAMES D. MOONEY

Oyster Bay, New York
October 15th, 1933

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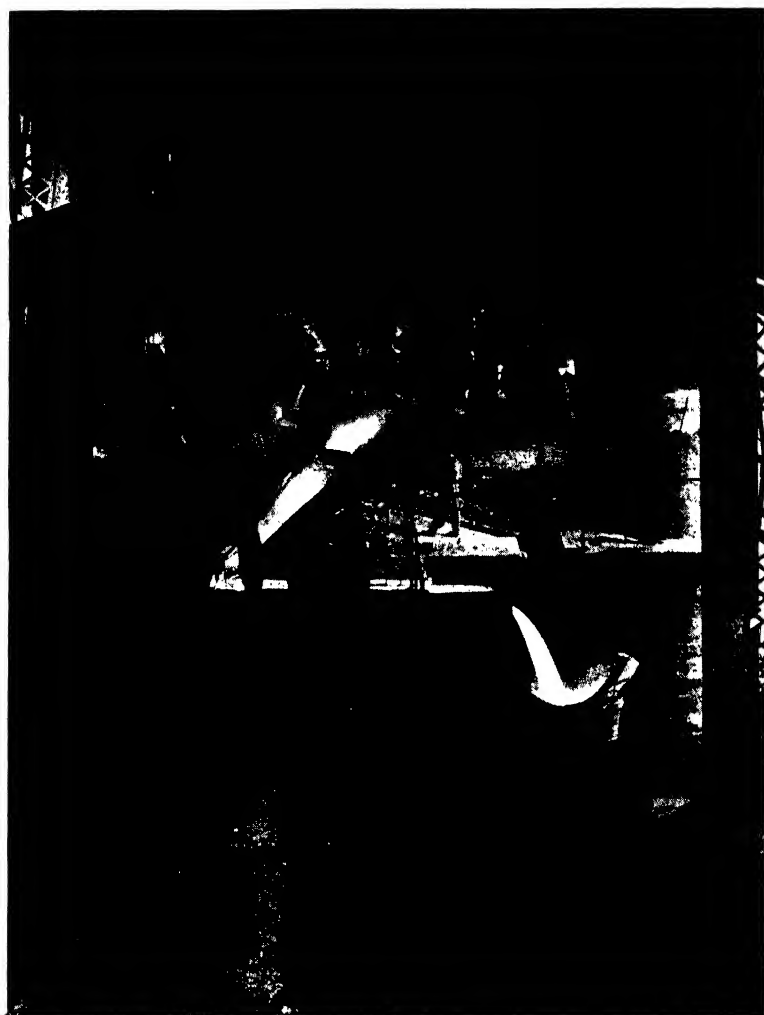
SECTION I

THE AMERICAN ECONOMIC
SCENE

CHAPTER I

THE SCENE CHALLENGES











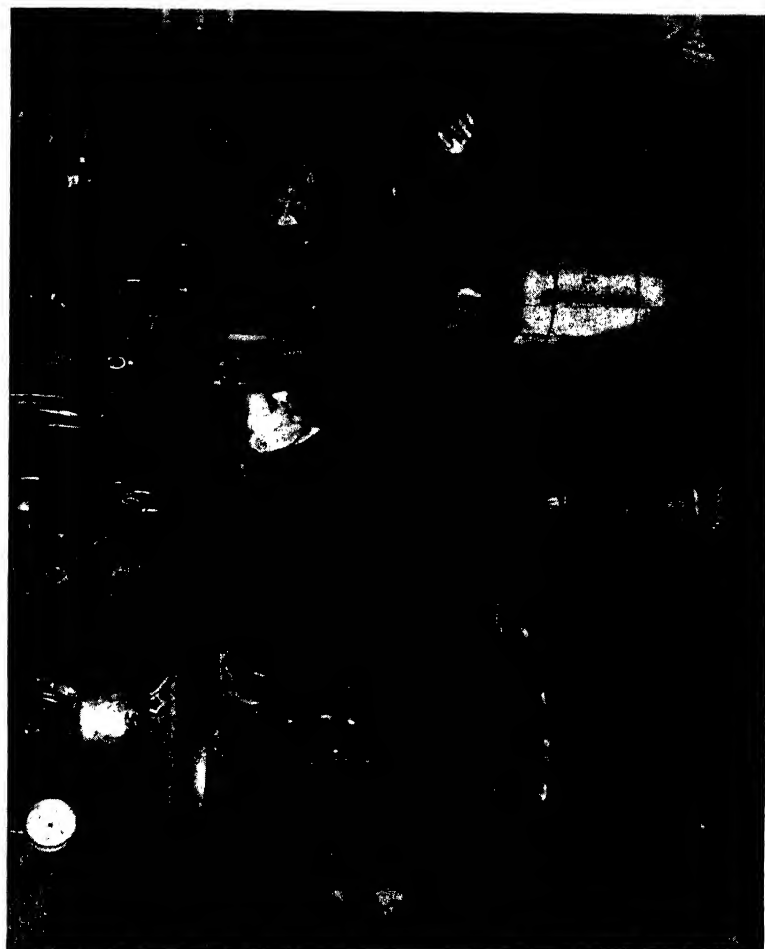


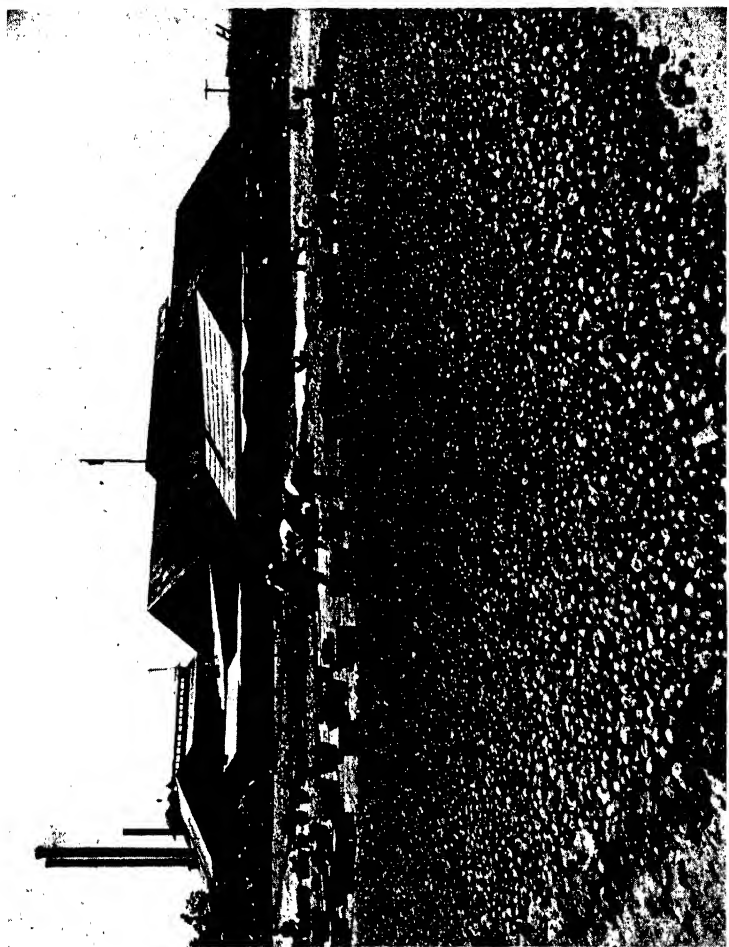


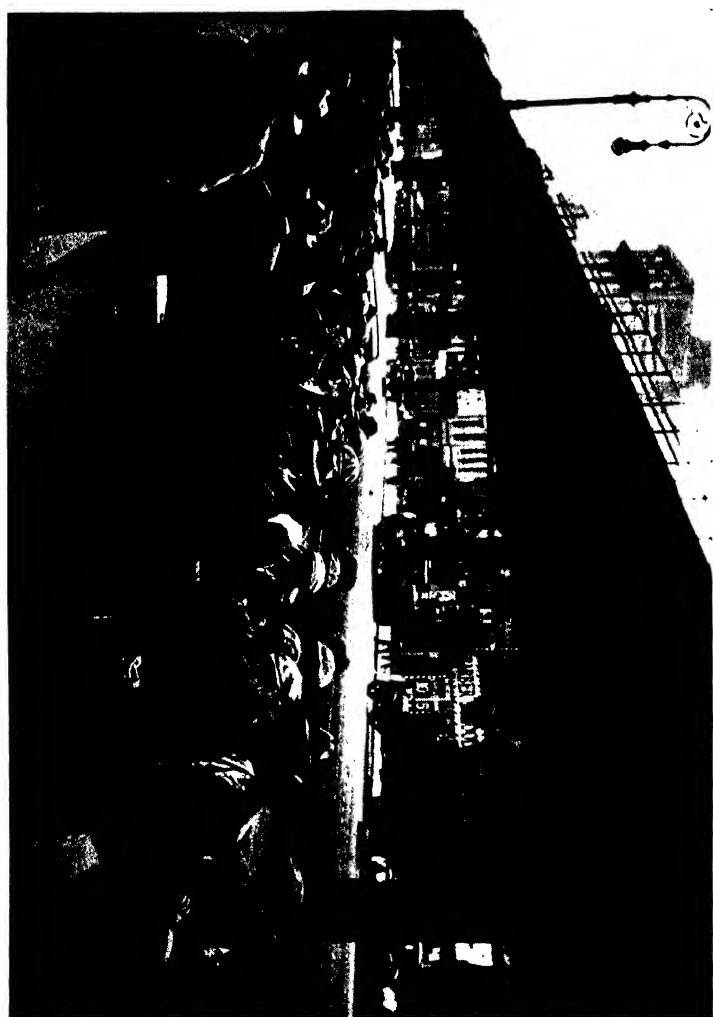


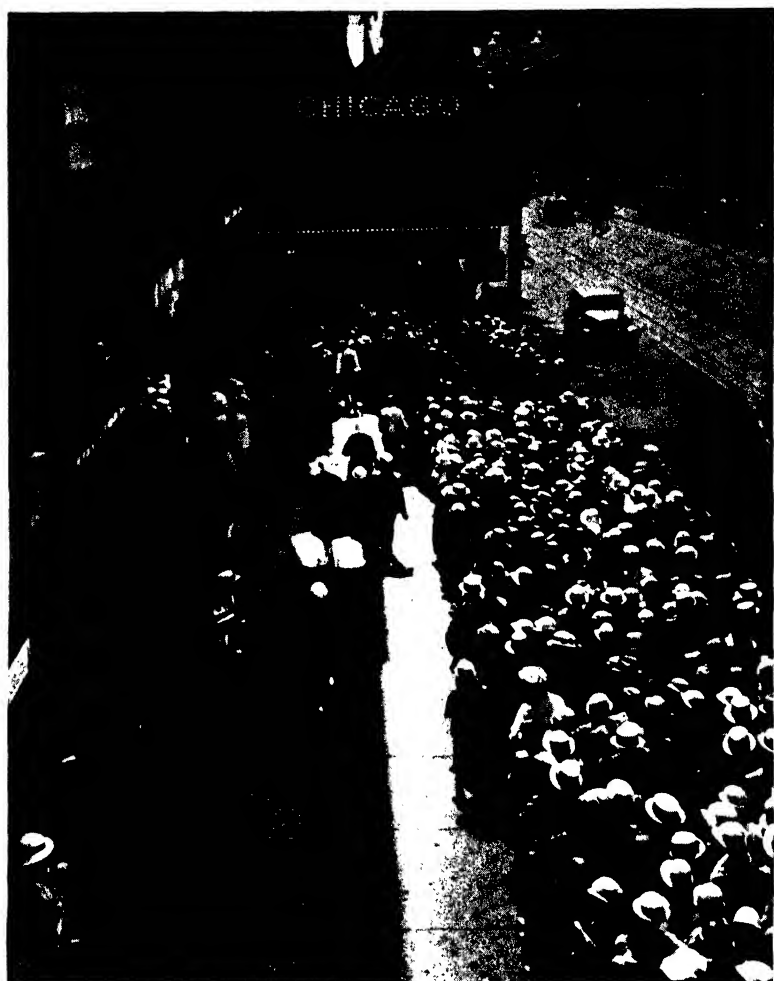












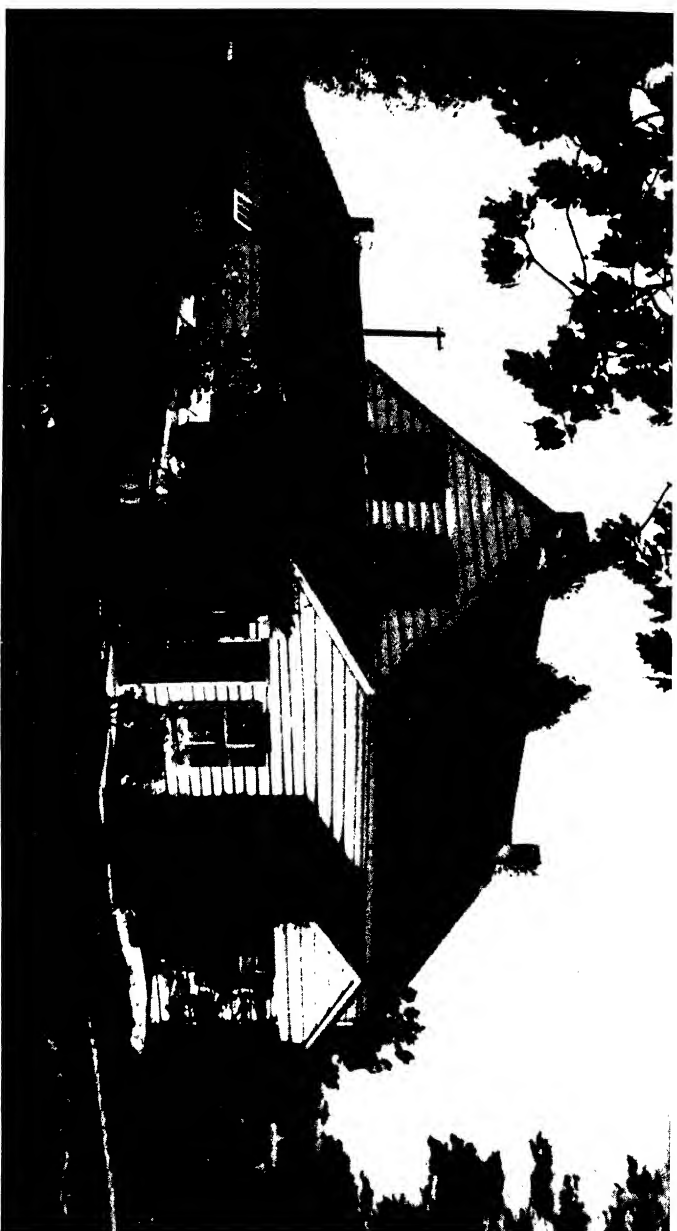






CHAPTER II

THE ESSENCE OF ECONOMICS



First in the heart of man comes the dream of home—



A fire-side at the end of the day.



And free and equal opportunity for his children.

CHAPTER III

THE ECONOMIC CRUCIBLE

IF WE were to go up in Professor Auguste Piccard's stratosphere balloon above the Mississippi River—ten miles high, perhaps, in the upper atmosphere—we would see a part of the United States spread out like a gigantic map below.

It would be a very small part, for the United States of America are huge indeed. But we would be able to see hundreds of square miles of that planet Earth on which we seek our fortune, and to measure, against the great cloud banks circling the horizon, the brave yet tiny works of antlike men.

Cutting that map from North to South would stretch the sluggish, tawny river, prime source of wealth, through drainage, soil and transport, to half a continent. Smoking stern-wheeled steamers, heavy with cargoes for a hundred destinations, would plow its surface; we would see the panting little tugs and oblong lines of barges, the lancelike trail of a speed-boat, or the flash of a lazy sail.

East to West across that map we would see the thin steel bands of the railroads, the junction points and water-towers, the fanning out of the switch-yards beside the little towns. Where rail line meets rail line, or

feeder streams sweep into confluence with the Mississippi, we would see the clustered towns themselves, the shacks and factory smoke-stacks beside the railyards, the broad main streets of commerce, the white steeples of the churches, the bulk of hotels or office skyscrapers, the green of parks and the white-spotted quiet of the cemeteries far beyond.

But, overwhelming it all, would be the countryside itself, the great checker-board pattern of the farm lands, square upon square, quarter upon quarter—the corn fields, the grain fields, the wood-lots and the pastures—The Land, out of which all things come; The Land which is the servant of the city, yet without which the city would die.

Thus, from our ten-mile-high vantage point, we would glimpse a bit of the true America, seeing it in relative perspective, the vastness of nature and the little tracks and trails that man, throughout four centuries, has made on its expanse.

But if we would see the men themselves, we should have to come far closer, for Man bulks but small on this earth on which he lives. We should have to go down, perhaps, to the tops of the skyscrapers and look at him in his streets, driving his automobiles through the noisy, smoky, down-town traffic, pouring in torrents from office buildings and factory gates at noontime, waiting in the doorways of his shops for customers.

The world is smaller here; the horizon we see is but that of a city. It stretches on all sides; skyscrapers near



Some day, perhaps, the men will build up their learned discussions of economic problems on premises that are simple integrations of the wisdom collected by the women in their daily struggles to make the family income effective in providing the greatest possible comforts for the home. Then we shall live in a rational economic America.

at hand, then proud high brick apartment buildings, then teeming tenements, lastly the circling roof-tops of private homes. The City is so big now that we cannot see the Countryside; there is only brick and steel and stone about us, the mathematical squares of city blocks, the long streets in diminishing perspective.

Man's works are everywhere. We cannot see the land at all.

Yet if we would know more of the true nature of Man, we shall have to lift up the roof-tops of some of the myriad houses, and find out what goes on within. We shall find that each is a Home. There will be a Woman there, sweeping and cleaning, cooking and washing, caring for the children, buying things for the family, working and planning. It is in this home, and here alone, that we can understand the nature of man's economic problems. It is in this group, a man, a woman, and their children, that we shall find the sole reason for the strange pattern of railways and farmlands and beehive cities that, from the upper atmosphere, was spread out before our eyes.

For it is in this home that man keeps all his most cherished possessions. It is for this home that he undertakes all his struggles. It is for the service of this home, and the 20,000,000 similar homes in America, that all the complicated machinery of plants and equipment, railways, airlines and steamships, city, state and federal governments, corporate financial structures and proud banking institutions, have been brought into being. It

is because each man wishes to preserve, enrich and cherish those things inherent in his home that he joins in the drudgery of labor, the anxieties of business. It is because men join thus, each pushing and jostling for his place, that the bee-hive cities have been born, the rail-heads driven westward, and the wilderness conquered.

Those who are convinced that the solution of our problems lies in some new economic philosophy, rather than in what we can do for ourselves, would be well advised to gain a deeper acquaintance with this mystery of economics. Some may be surprised to find, at the start, that their investigation will carry them back immediately to the roof-tops of America and what is under them—The American Home.

The grim word "economics"—in its original sense—means merely and simply "the science of Housekeeping". The Greeks invented it. Casting about to find a word to describe the art of managing the business affairs of a government, they realized that, after all, the problems of nations were no more than the extension of the problems of the individual, that keeping a nation in good order and in a condition of prosperity was best comparable to keeping the furniture dusted, the oil lamps filled, and the right kind of pork and Thessalonian grapes in the larder. They chose "economics", the art of housekeeping, as properly descriptive of the art of maintaining the best standards of living.

To the Romans, "Œconomia" remained "household management"; even in medieval times the magic word

“economist” merely described a “housekeeper”. The problems of today’s economists—however obscured by phrase and theory—remain the same. The art of keeping our nation in good economic order involves no more abstruse principles than those invoked daily, by every individual, in keeping his own home affairs in order.

The labels of these economic problems are often grandiose and imposing. We are confused by such terms as “balance of trade”, “free markets”, “gold export point” and “equalization”. The housekeeping decisions of the world are often made with form and ceremony, amid surroundings of pomp and circumstance. They are undertaken in places remote from the average man,—Washington, or London, or in meetings at Geneva, Locarno or Basle. They involve discussions and adjustments with unfamiliar folk, Englishmen, Frenchmen, Germans, Japanese and Russians, who are, however, really very close neighbors in these high-speed days, and who are all hard-working fathers of families, merely trying to get the best deal they can for their own particular Homes.

Looking at our own America, from this housekeeping viewpoint, we shall first see what there is in our House, its size and shape, the plant equipment in the way of tools to work with, the help with which it is staffed, the neighborhood in which it is located.

We shall then see that the broad, fertile acres of the United States are but our garden, that our factories are our tools, and that we have millions of people ready to pitch into the job in hand.



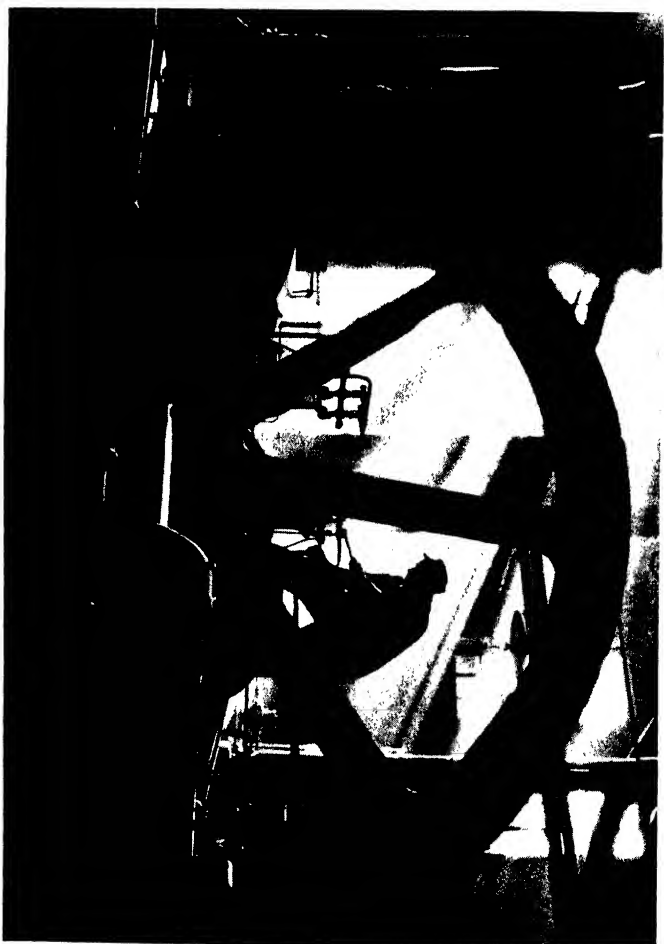
Here, wisdom and homely art are not at all confused by technology.

CHAPTER IV

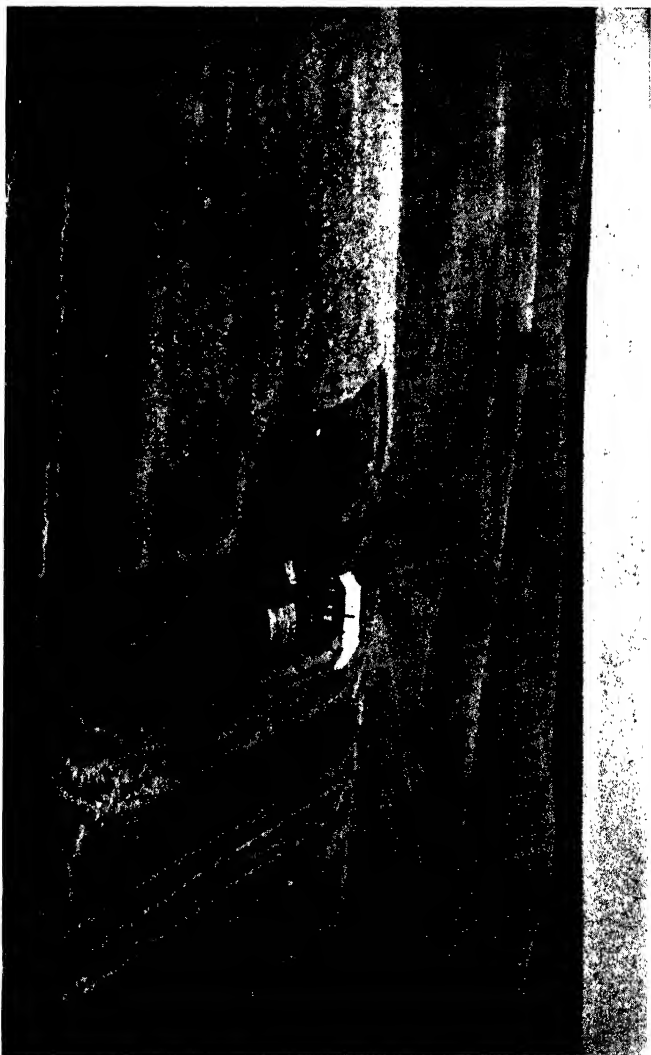
PRODUCTION

THE case for modern industry can be stated in a single sentence. *Modern industry extends to the whole of America the promise and the opportunity for the final elimination of human poverty.* It provides, or will provide, not only enough to go around, but plenty of everything for everybody.

The following pages show some of the splendid equipment available with which to work, to earn, and to supply our daily needs.



What started it all, in modern industry—the steam engine.



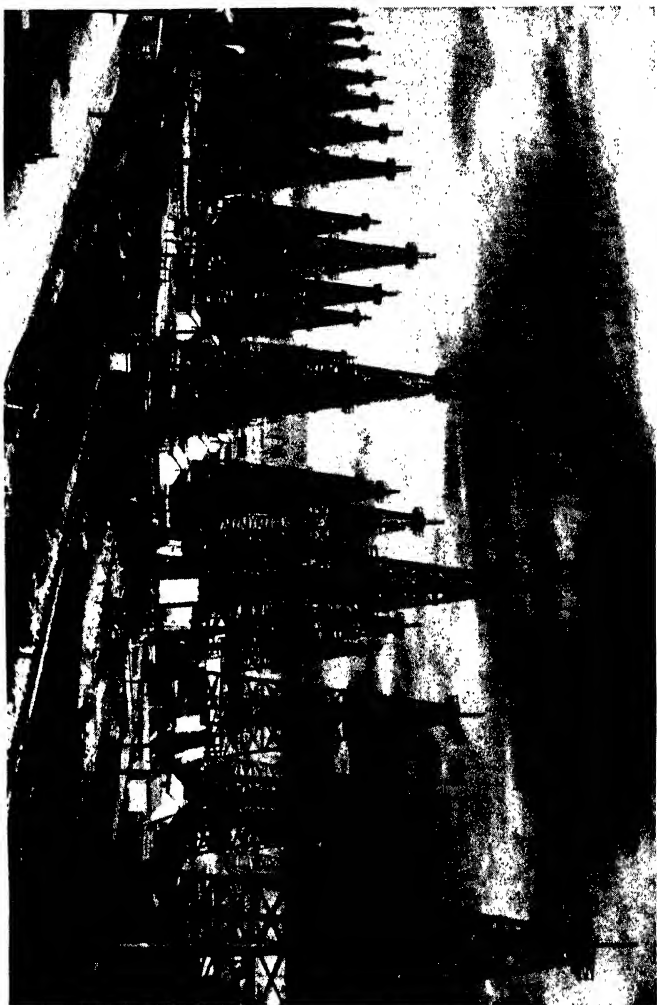
Production forces that give us food



Clothing



Shelter



and Fuel.



The mechanisms of modern commerce and finance are complicated only in the sense that a mechanism for production like this one is complicated, that is, to the casual, superficial observer. The designers of such a symbol of engineering progress base their development of the mechanism on fundamental *physical* principles. Perhaps, some day, our designers of economic plans will likewise base their development of these plans on fundamental *economic* principles.



Where the tools for production are made.



Skilled and nimble hands, plus the tool makers' art, express themselves in producing quality products at low cost.



If the philosophy of wages and output that results in the production of these goods, at costs and prices that make them readily available for general consumption, could be translated into house building, employment and homes would be made available for several million American workmen.

CHAPTER V

DISTRIBUTION

DURING the past several years, economic and business literature has been characterized by the emphasis on two important things in which the capitalistic system is said to have failed. In the first place, we are said to have had a tremendous "overproduction". In the second place, the point has been continually hammered in that there is something wrong with the distribution scheme, and that we ought to dump the present scheme overboard and try something radically different.

The statement that there is any general overproduction of consumer goods may be quickly disposed of, for it is an offense to one's common sense. One can hardly speak seriously of "overproduction" in a land of bread lines and soup kitchens, a land of slum sections as hideous as any in the world.

Industry, unfortunately, is still discussed mainly in terms of production. The correct focus on modern industry is unattainable until we recognize that distribution is its great unsolved problem. This statement is in no way refuted by the fact that the great triumphs of modern industrial organizations are those of mass distribution, facilitated by the modern arts of communication. Even our vast industrial units, which may be justly

regarded as the world's most efficient distributors, are contending today with unsolved distribution problems. In other lines of industry, where the producer has no contacts, direct or indirect, with the consumer, this solution has hardly witnessed even a beginning. The best illustration of this fact is found today in farm products, and the enormous spread between what the farmer receives for these products and what the ultimate consumer is forced to pay for them.

There are two principal elements in distribution:

- I. The physical means for transporting the goods:
Railroads, steamers, canal barges, motor- and horse-drawn vehicles, and airplanes.
- II. The marketing or merchandising processes:
 - a. Calling the goods to the attention of buyers.
 - b. Having goods readily available for buyers when they want to buy.
 - c. Financing the flow of goods, through whole-sale, and, finally, into the hands of the consumers.
 - d. Setting the price.

Whatever our political approach to the functions of distribution, whatever change we think we can make in it by changing the terms, or reorganizing it, or putting it more under the control of the government, or changing our laws about it, we shall not make the slightest bit of change in the fundamental functions to be per-

formed in carrying the goods to the market; in the general physical elements of the problem.

The railroads will operate in exactly the same way physically; our magnificent American road system will make the same contribution to delivering the goods to the consumer's door by means of motor trucks. We shall have exactly the same problem of physical availability; that is, of providing stocks of the goods throughout the country that will be proportional to the potential consumption in those various areas. In other words, the general physical problem of moving the goods to the market, from the producer to the consumer, will not be altered one single iota by any change in the political complexion of the scheme. Distribution, in its physical elements, will only be changed, or improved, by such contributions as the technologists make from time to time to improve the equipment for moving the goods more quickly and more cheaply to the market.

The functions or duties that the retailer performs, to be of service to consumers in the way of having goods readily available and delivering them promptly as needed, and carrying on the thousand and one little attentions that consumers demand constantly from the retailer, could not possibly be altered by any of the suggestions that have been made from time to time for changing the political complexion of our distribution scheme. The same is true of the wholesalers, who support the retailers by having stocks of goods available and providing them with the credit that is necessary to support their merchandising efforts.

We have shown in this chapter several pictures of the

processes of distribution, including the physical facilities that support the movement of goods to the consumer, and also the merchandising functions that are performed as part of this service. We must identify these functions, so that, as we examine them together, we shall see that these processes are inevitable; that they proceed on two bases that are really unchangeable by any new theories in political economy. In the first place, the physical movement of goods must continue as it goes on today, with our hopes extended to the technologists who perhaps can gradually get the job done better for us. Second, delivery to the consumer will not be changed until we change human beings—the attitude of the housewife, and the demands of the housewife on the retailing system. Try to “socialize” the American housewife, mere men!

THE PRICE FACTOR IN DISTRIBUTION

Let us turn now to the *price*. Here is the important element that concerns government officials, economists, business men, financiers, industrialists and farmers.

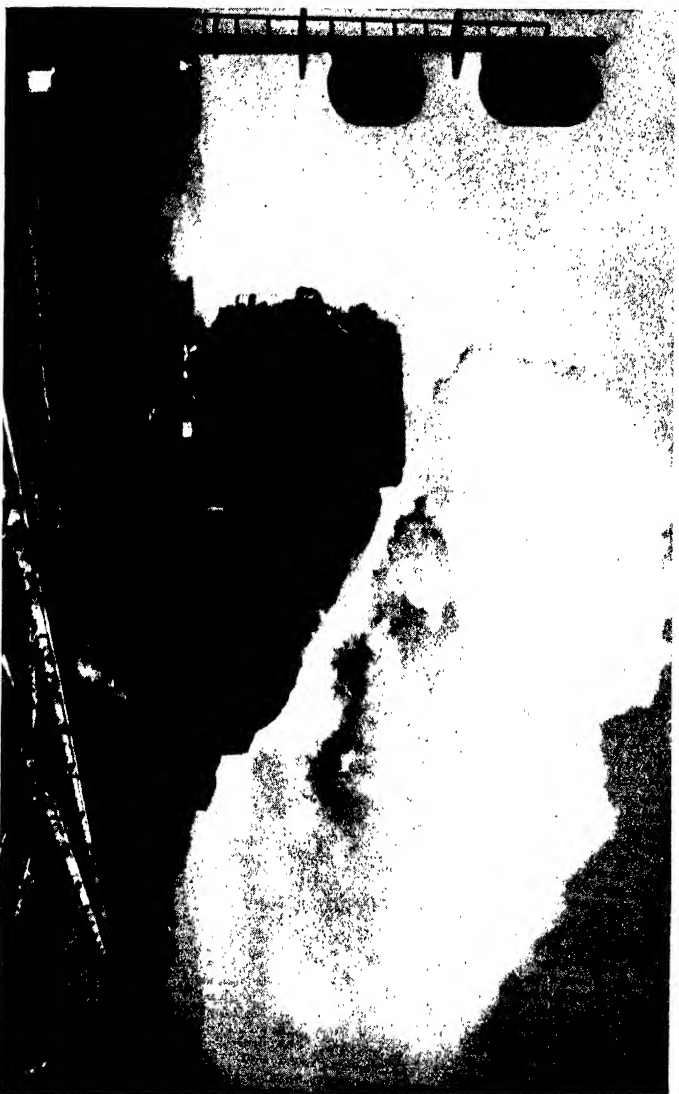
Some of us have sucked our thumbs a lot over this price factor, and have stuck tenaciously to our beliefs in certain price fallacies. These fallacies have been very costly to our country, and have had a great deal to do with the too long continuance of our present curse of unemployment.

We should like to emphasize the point that when we speak of price in the distribution scheme we mean the delivered and inclusive price that the consumer pays.

This price must include freight, taxes, and any other elements that go to build up the final price to the consumer.

In our consideration of the distribution problem, we intend to emphasize the importance of price. Price can play a vitally important part in effecting a far better balance between our production facilities and the entire process of distribution.

Meanwhile the principal effort in the present chapter is to establish the main elements of distribution, and to show that these processes are necessary, vital and inevitable in our economic life. Accordingly we might better cease imagining that these can be changed by some sleight-of-hand method. The effort, further, in the present chapter has been to focus attention on price, because here we can do something. Later we intend to explore the various elements of the realities in price, and to let these realities make their own suggestions of whatever can be done to improve our system of distribution.



Science and engineering have given us splendid means for the distribution of goods—



Equipment for handling and storing materials



Water Transport



Road Transport.



We pass now to the retailing of goods, where quality, value and price must meet critical attitudes.



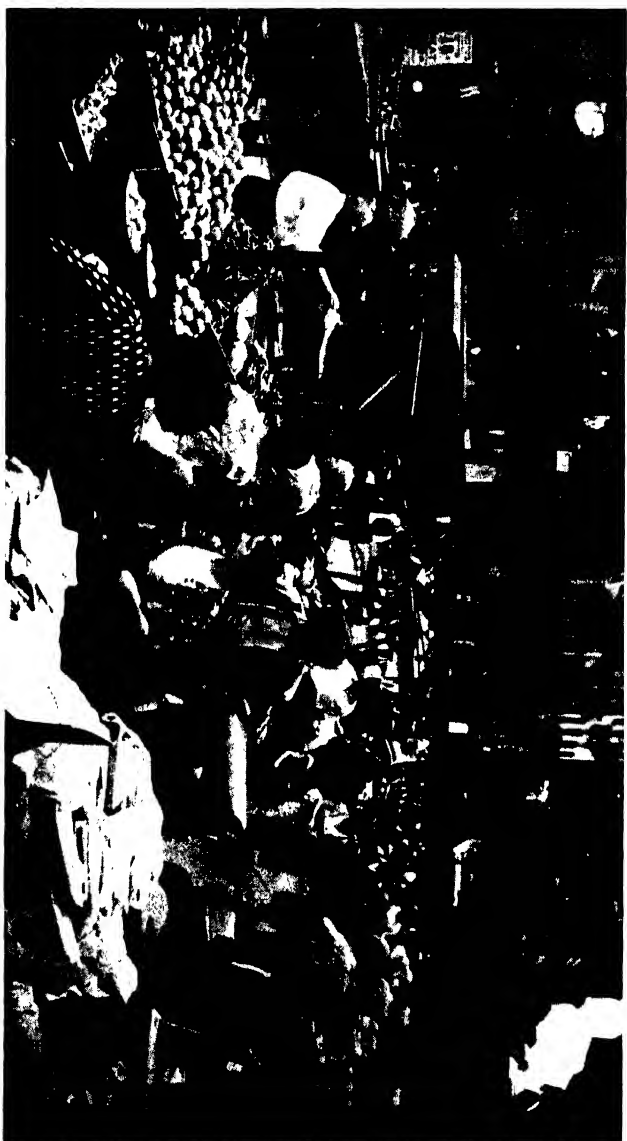
On her eternal quest for attractive goods and attractive prices.



Deliveries, service and a thousand and one attentions must be performed to satisfy consumers.



In a scene like this, we know that purchasing capacity is not increased by raising prices.



In retailing centers like this the doctrine that purchasing capacity and business movement are increased by increasing prices confronts its *reductio ad absurdum*.



The merchandise manager and consumers alike demonstrate the value of low prices in increasing demand.

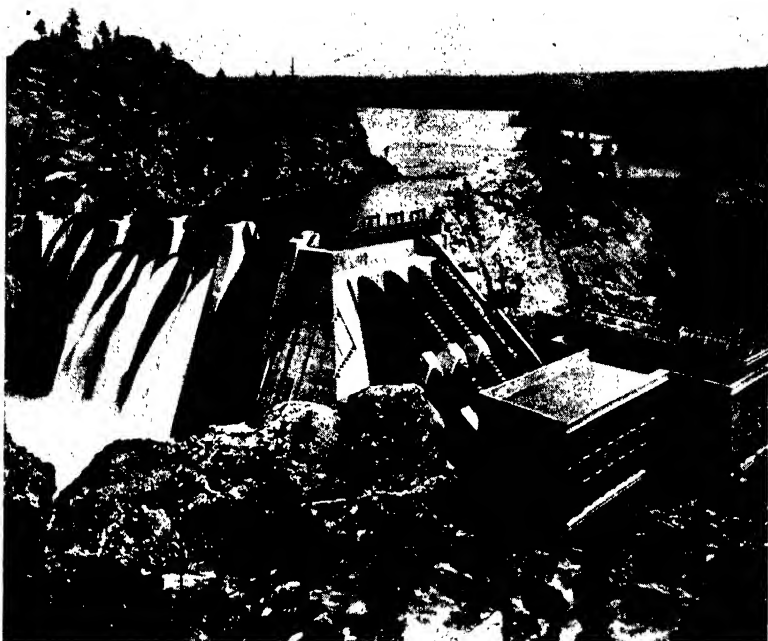


This is where the housewife gains her sophistication in economics. When we construct our economic theories and practices on the averages of actions and reactions that occur at the points of seller and buyer contact, in other words, on the law of supply and demand, we shall live in a happier economic America.

SECTION II



ECONOMIC LAW



In our development of the physico-economic analogies in the following section we have tried to be faithful to the laws of hydraulics as we find them expressed in this water-power operation. The figures which follow are not mere schematic drawings, but are true analogies. We wish to emphasize the fact that hydraulic laws have governed all of our analogies. In other words, water has not been made to run up hill simply to establish an economic premise.

INTRODUCTION TO THE PHYSICO-ECONOMIC ANALOGIES

In the physico-economic analogies developed in the following chapters, we have tried to maintain both integrity and absolute consistency. The illustrations are more than schematic. They are no ordinary two-dimensional charts. They are truly physical, and no liberties are taken with physical laws.

Likewise we have invented no economic laws. In developing the whole series of analogies, we have used only one very old economic law: the supply rises as the price rises, and the demand rises as the price falls (see Chapter XIII for full statement of the Law of Supply and Demand).

One economic factor at a time is translated into the physical analogy in such manner as will maintain the integrity of the direction of its force, according to the law of supply and demand.

Thus, when the physical analogy is complete, the general relationships of the various forces can be observed, expressed and finally interpreted back from the physical analogy into economic terms and patterns.

To put it another way: we take expressions of economic law, translate them into algebraic expressions, and then express the algebra in a physical analogy.

Later we draw out the relationships in which we are

interested, from the physical analogy into algebraic expressions, and translate these expressions back into economic terms and patterns.

In plain words, the scheme attempts to provide: first, a means of overcoming the limitations of our minds in grappling with several factors at once and trying to hold them in place as we go on with our thinking; and, second, a means of controlling the discussion of a complicated economic problem. Through this method the several people considering the problem can continue to discuss and argue the matter without finding themselves in a very short time in a hopeless mess wherein no two of the group are talking about the same thing or following a center line of thought together that leads to a coherent solution.

We need hardly remind the reader that discussions of economics ordinarily are about as coherent as the voices at the Tower of Babel. And this applies not only to the dinner-table discussions of mixed groups of men and women, but often to the lunch-table discussions of the "high-powered" men. Rarely do any two of them use the same terms with a commonly understood meaning, and the discussion seldom travels down a main road longer than a few minutes. No wonder economics has been called the dismal science—swamps, morasses, no main roads and no direction-sign posts!

In reviewing the various physical sciences, out of which instruments could be chosen for creating the analogies, it soon became obvious that hydraulics, the

science devoted to the understanding of the laws of liquids, offered the best and simplest medium. It is interesting to note, in passing, that the terms used in hydraulics are often the same or similar to the terms common in economics,—flow, velocity, pressure, volume, equilibrium, frozen, liquid, and so on.

We are not going to apologize too much for this attempt to rationalize the approach to economics. Perhaps an introduction of the discipline of the scientific method into the field of economics will help to preclude a continuation of the appallingly costly blunders we have committed during the past several years. Likewise the conclusions drawn from the analogies scarcely call for an apology, although it will be observed that these conclusions controvert in many places certain precepts that have provided the substance of our economic policies in America during recent years. Our practice of these same policies has forced us to endure the long miseries of the worst depression in our history; hence it is certainly high time for us to consider such economic precepts with skepticism and to develop a fearless determination to search for and face the truth.

CHAPTER VI

THE LAW OF SUPPLY AND DEMAND

TO THE man who leads economic groups, the law of supply and demand is like the compass to the navigator.

In our exploration of the economic or commercial seas we shall find that a thorough grasp of this law will provide us with a magic means of understanding the general laws of economics and business. All of the various areas of economics,—production and distribution, banking and credit, taxes, international trade, foreign exchanges, and the gold standard,—can be intelligently explored once a firm grasp is had of the law of supply and demand.

The various actions and reactions that are included within the operation of this law are based, as we shall explore it, on human behavior. The law operates as it does because human beings have fundamental attitudes toward material things, and when we examine their actions in groups we can find a certain continuity in these attitudes that can be used as the basis for forecasting what their actions will be in the future.

It is only stating the obvious when we say that economic life is as old as the race itself, and history provides plenty of material upon which to base generalities about human behavior in relation to material values,

from which we derive our so-called economic laws. Also, if we are fond of using our eyes and making careful observations, there is plenty of material that we can collect to provide the basis for a careful definition of the law of supply and demand. As a matter of fact, the world is a rich laboratory for examining or collecting data about human behavior in the various areas of production and trade.

The Law of Supply and Demand, in its simplest form, can be set forth as follows:

The supply of a commodity is proportional to the price, and the demand for a commodity is inversely proportional to the price; that is, the supply rises as the price rises, and the demand rises as the price falls.

Conversely, and when expressed in terms of a stable medium of exchange, the price of a commodity is proportional to the demand, and inversely proportional to the supply; that is, as the demand increases, the price increases, and as the supply increases the price decreases.

This fundamental expression of the law of supply and demand is the basis of all economics. In simple language it means that an increase in the demand for any commodity *increases* its value in relation to other commodities; and an increase in the supply of any commodity *decreases* its value in relation to other commodities.

We can now get on with our exploration of the law

THE LAW OF SUPPLY AND DEMAND

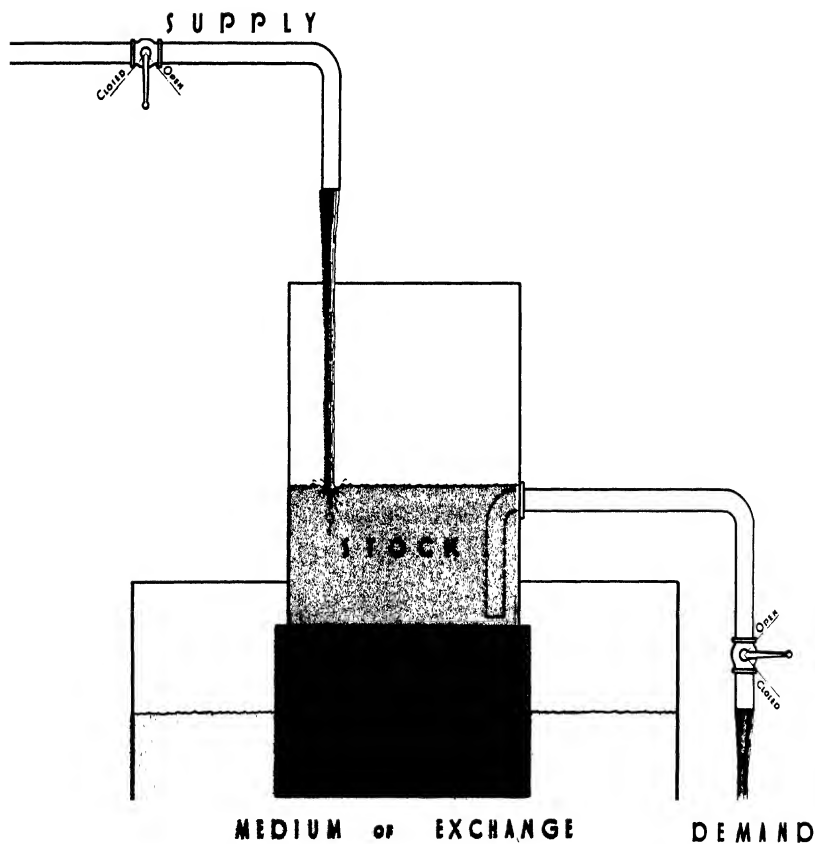


FIGURE 1

of supply and demand, and putting it into physical analogies. We shall build up a self-contained physical scheme that will illustrate or hold for us the various elements that we project in words. We then can hold the scheme coherently together and keep ourselves from getting lost in the words.

In Figure 1 is illustrated the simplest expression of the law of supply and demand. We have taken a tank and filled it approximately one-half full with a liquid; water, in this case. Then we set a floating block in the tank. On top of the block we place a jar. Then we have fastened a pipe to the jar. Above the jar we have placed another pipe. On the side of the block, floating in the liquid in the tank, we have made a scale, starting with zero at the top of the block and running to one hundred at the bottom. The liquid in the tank represents the medium of exchange. The level of this liquid, as it registers on the price scale, records the price in terms of this medium.

The supply of the commodity (wheat, let us say) flows into the jar through the pipe at the top. The demand for wheat is represented in the pipe attached to the jar. We can readily see that, as the demand for wheat is increased, provided the supply stays the same, the stock of wheat in the jar will be gradually reduced. And, as the weight of the stock is decreased, the jar on its block will gradually rise out of the liquid. Accordingly the price, as read on the index on the side of the block, will increase.

On the other hand, if the flow out of the demand pipe remains unchanged, and the flow from the supply pipe

is increased, the stock of wheat in the jar will increase. The block will then be submerged deeper into the liquid in the tank, and the price, as shown on the index at the right, will decrease.

This figure illustrates the simplest form of the reactions of the law of supply and demand on price: as the demand increases the price increases, and as the supply increases the price decreases. Or, putting it another way, the price is proportional to the demand and inversely proportional to the supply.

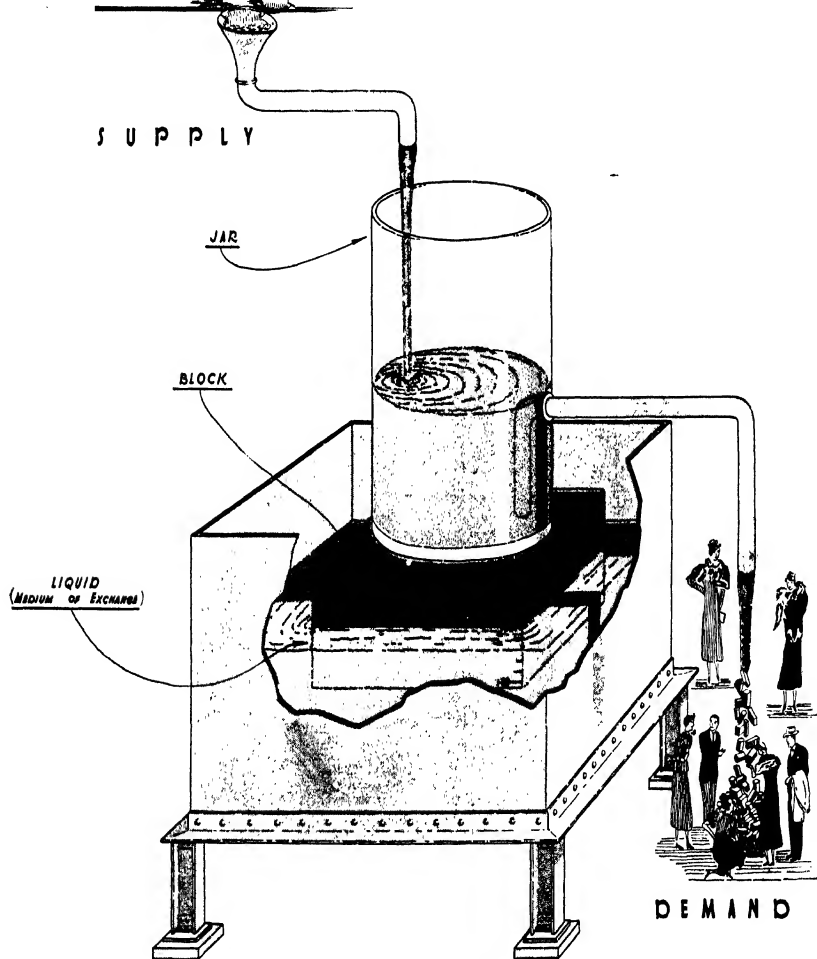
In Figure 3 we have shown what happens when the demand is vigorous. Supply has not kept up with demand, and accordingly the stock of wheat is depleted. Thus the weight of the mass of wheat in the jar has decreased. Accordingly, the block is buoyed up by the liquid, or medium of exchange, and the price increases.

In Figure 4 we have shown the supply, entering from the pipe at the top, greater than the demand. The stock of wheat is rising; the weight of the mass of wheat, accordingly, is increasing. This causes the block to sink into the liquid (medium of exchange), and thus we read on the index that the price has fallen. This is what happens when the supply increases.



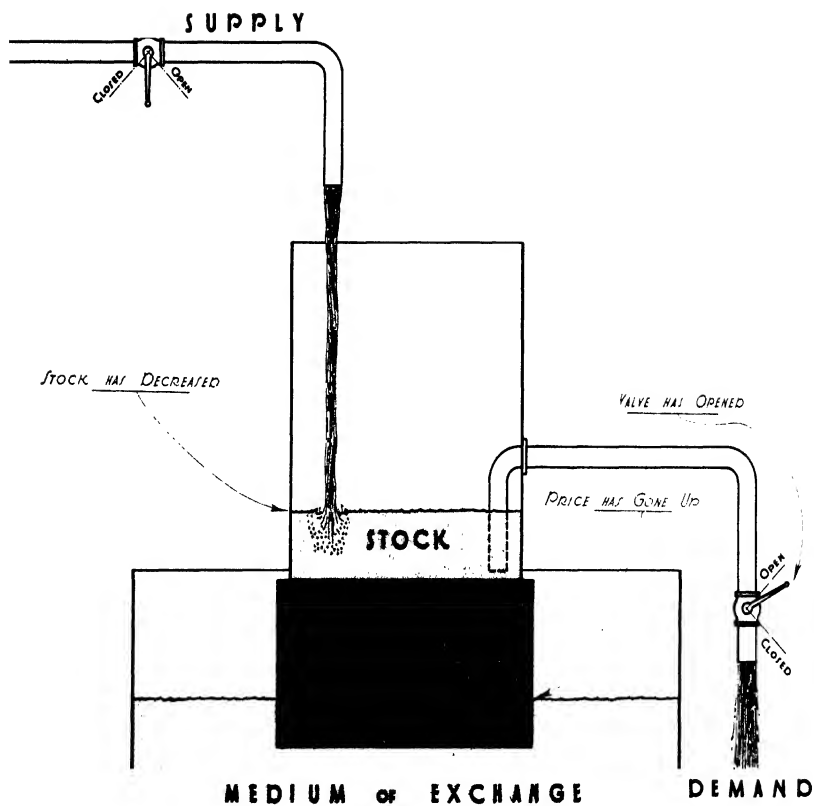
LAW OF SUPPLY AND DEMAND

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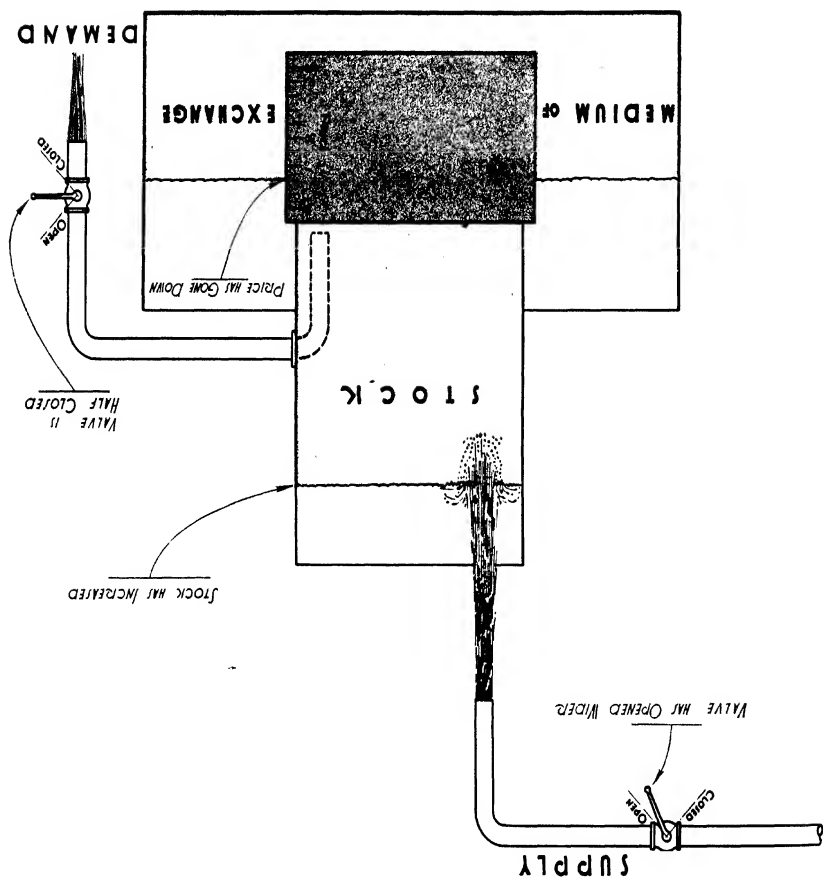


*[The block on which the jar rests
is floating in the liquid - - -]*

VIGOROUS DEMAND
MEDIUM SUPPLY



MEDIUM DEMAND VIGOROUS SUPPLY



SUMMARY

The Effect of Price on Supply and Demand:

The supply of a commodity is proportional to the price, and the demand for a commodity is inversely proportional to the price; that is, the supply rises as the price rises, and the demand rises as the price falls.

The Reactive Effect of Supply and Demand on Price:

The price of a commodity is proportional to the demand, and inversely proportional to the supply; that is, as the demand increases, the price increases, and as the supply increases the price decreases.

This law is expressed in terms of a stable medium of exchange.

CHAPTER VII

THE MEDIUM OF EXCHANGE

HERE we come to the point in the story where the plot thickens, as we say of the human drama. More figures appear on the economic stage; other influences and counter influences become potent in their effect on the price structure. But the underlying principle, the law of supply and demand, holds good—always.

In discussing the law of supply and demand in the previous chapter we described how the block, and accordingly the price index, would rise higher or sink lower in the liquid, according to the changes in the weight imposed on the block. There is something else, however, that would effect the degree to which the block would rise or fall in the liquid (the medium of exchange), and that is a change in the character of the liquid itself. The physicist would call this characteristic of the liquid the specific gravity.

You or I might call it the “density” of the liquid. For instance, if the liquid were as dense as salt water, the buoyancy of the block would be different from its buoyancy in fresh water. In salt water the buoyancy would be greater. The block would rise higher in the salt water than in fresh water for corresponding weights in the jar. If we could affect the density or specific gravity

of the liquid from time to time we would exert an influence on the rise and fall of the block, quite independent of the weight imposed on the block by the jar and its contents. In other words, we could keep the same weight imposed on the block, and still cause the block to rise or fall by changing the specific gravity of the liquid.

In Figure 5 we show the tank which we referred to as the tank containing the medium of exchange. This medium of exchange consists of gold, currency and credit, in the proportions shown in the upper figure.

If we want to keep our physical analogies simple we might presume that the gold is some form of salt and that the currency is water. As currency and credit are both represented normally in commerce by pieces of paper, we shall also depict credit as water. We mix these things in the tank. The salt will dissolve in the water and we shall then have a homogeneous liquid as shown in the lower tank, made up of salt and water. This corresponds in our analogy to the "homogeneous" mixture of gold, currency and credit.

Let us suppose, for a moment, that the proportions of the gold (salt), and currency and credit (water), continue the same, while we examine what happens as we change the supply or demand for the commodity.

We shall have the same thing happening as in Figures 1, 2, 3 and 4. As the demand is increased, the price will increase; that is, the stock will decrease, the weight in the jar will decrease, the block will rise and the price

THE MEDIUM OF EXCHANGE

CREDIT

CURRENCY

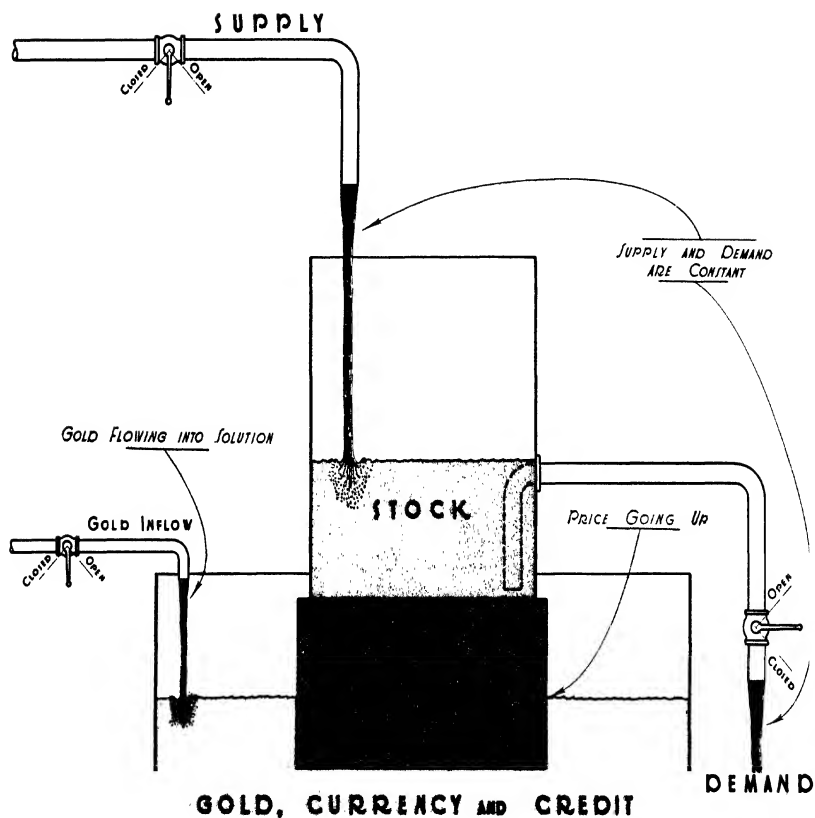
GOLD

THE TANK
CONTAINING THE MEDIUM OF EXCHANGE

GOLD, CURRENCY AND CREDIT

THE TANK
CONTAINING THE MEDIUM OF EXCHANGE
IN SOLUTION

THE EFFECT OF GOLD ON PRICES



GOLD OUTFLOW

[Gold reserves are increasing and provide
more substance for the currency and credit]

DENSITY OF
SOLUTION INCREASING

FIGURE 6

will increase. On the other hand, if we hold the demand constant and increase the supply, and accordingly build up a stock, the weight in the jar will push the block further into the liquid and the price will fall or decrease.

So much for the effect of supply and demand in terms of the commodity itself: The price is directly proportional to the demand and inversely proportional to the supply.

However, as the medium of exchange has come to be a combination of gold and currency and credit, we shall have to see what happens as a result of changing the proportions of these in the supporting liquid in the tank.

If we increase the proportion of gold (salt) to the currency and credit (water) in the solution, we shall increase the specific gravity of the solution; we shall buoy the block up by increasing the specific gravity or density of the liquid, and, accordingly, increase prices.

In Figure 6 we have increased the supply of gold. We can imagine the salt flowing into the tank and increasing the specific gravity or supporting qualities of the liquid and thus buoying up the block, and, to transfer to economics, raising the price of the commodity. This price rise depends only on the supporting qualities of the medium of exchange, and is independent of the supply and demand for the commodity itself.

On the other hand, if we withdraw gold from the solution, we shall lower its specific gravity. Therefore, its capacity for supporting the block will be lowered, and the block will sink further into the liquid. Or, to express the analogy in terms of economics, the price of

the commodity will fall, even though the supply and demand for the commodity remain the same.

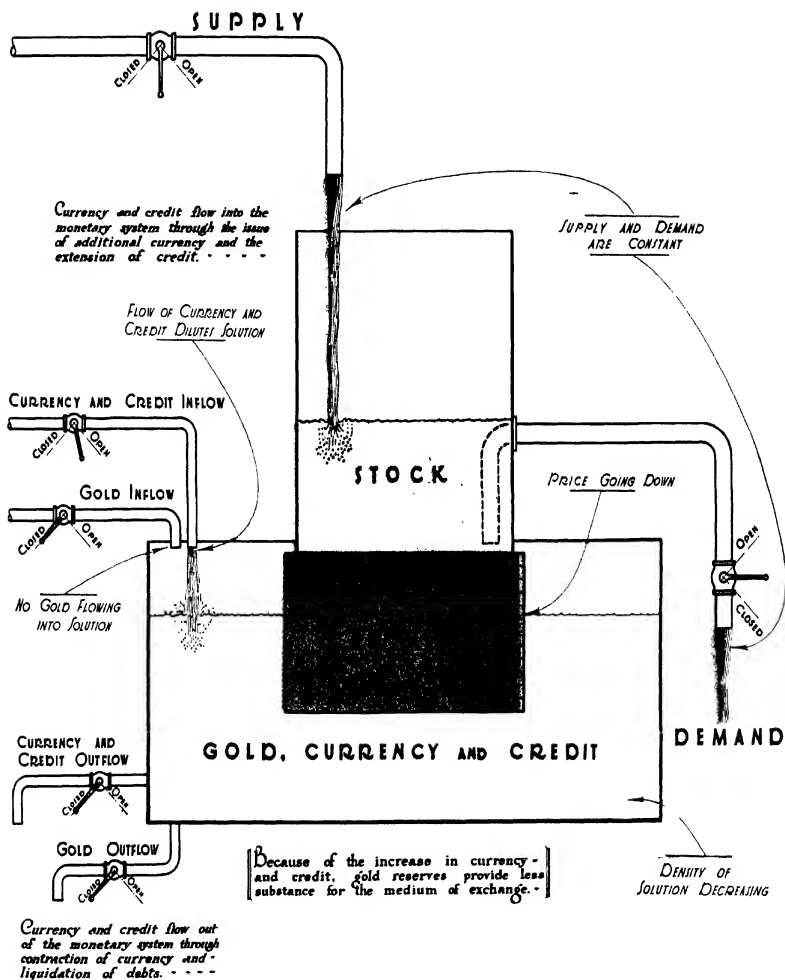
There is another way in which we can dilute the solution in the tank, and that is by increasing the currency and credit content of the solution, if we hold the total quantity of gold the same.

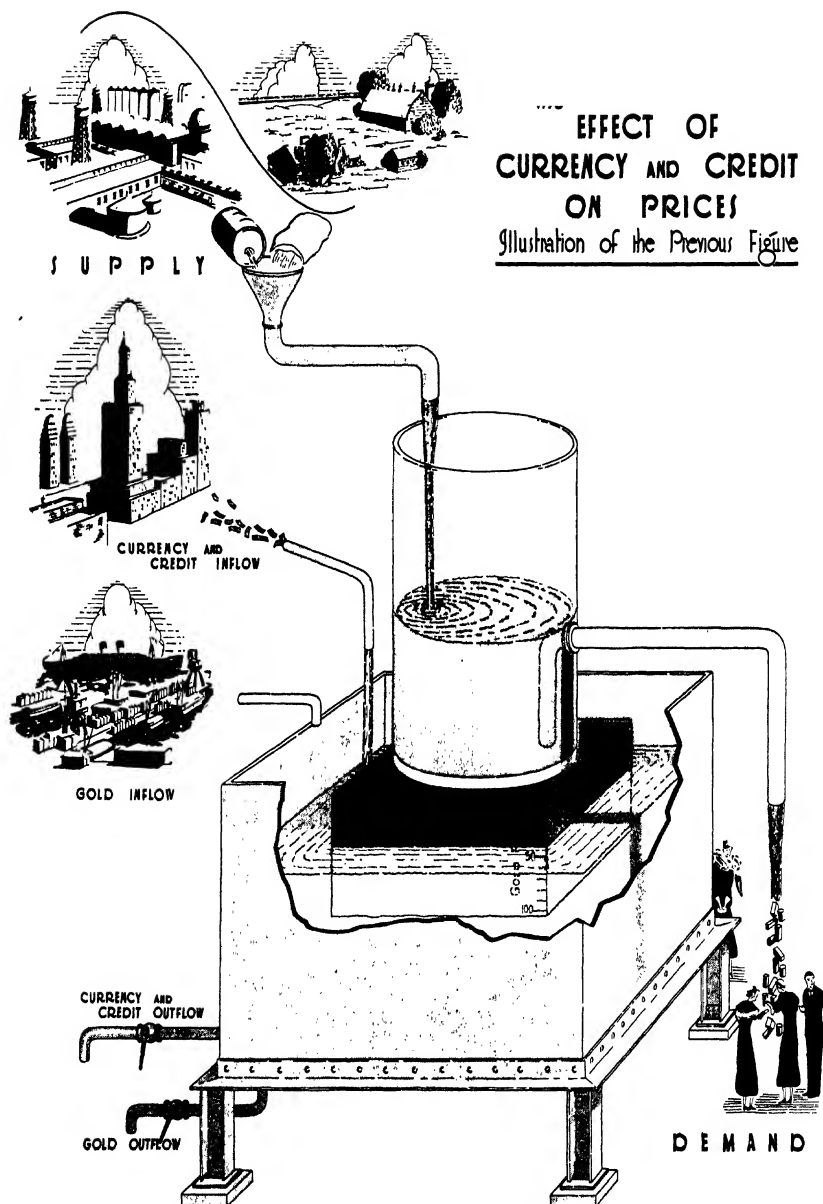
In Figure 7 we have shown what happens when currency and credit are pumped into the solution and the density is lowered. The result, of course, is a drop in real or gold prices.

This is one of the most interesting points to be observed and grasped in the entire scheme. In America, as well as in other countries, the presumption has prevailed continually that the best way to raise prices is to pump credit into the solution. As our physical analogies show, and as we have learned by hard, cruel experience, the surest way to *depress* real gold prices is to pump currency and credit into the medium of exchange. Unless the gold base will support these credits, and prevent excessive dilution of the medium of exchange, gold prices will fall.

The way to effect a rise in *real* prices, so far as monetary policy is concerned, is to increase the proportion of gold in the medium of exchange to the total currency and credit. This increases the probability of the redemption of paper in gold. Whenever these probabilities are increasing, the result is a rise in *gold* prices, whereas any decrease in the probabilities of redemption causes falling *gold* prices.

THE EFFECT OF CURRENCY AND CREDIT ON PRICES





SUMMARY

The price of a commodity is affected not only by the supply and demand for the commodity, but by variations in the stability of the medium of exchange.

The stability of the medium of exchange depends upon the proportion of gold (a real, liquid value) to the currency and credit in the medium of exchange. As the proportion of gold increases, the medium of exchange becomes more stable; as the proportion of currency and credit increases, the medium of exchange becomes less stable.

Real, or gold prices, are proportional to the degree of stability of the medium of exchange; that is, real prices rise as this stability increases, and fall as the stability decreases.

CHAPTER VIII

GOLD!

WHAT is the magic quality of this metal, heavy to the hand, velvet to the touch, that has made it a lodestone to mankind throughout the ages?

For gold men have died, starving on far deserts and frontiers where they sought to win it from dry water bed or mountain fastness. Wars have been fought for its possession; entire races have been reduced to slavery to gain the precious metal. The pages of history are bright with the gold of the conquerors, dark with the stories of loot, rapine and pillage that followed in the wake of the search for gold. That search has alike peopled our own California and Alaska, the Rand of Africa, the frontiers of Australia. The word itself—"Gold"—has become the symbol both for success and happiness, and for greed, avarice and the darkest lusts of mankind.

Yet through this story shines the beauty of the metal, its final value and its greatest lure. Out of the tombs of Egypt come the golden vessels of the Pharaohs, out of the dawn of history comes the story of the yellow gold the sea-faring Phœnicians sought. Athens still guards today the thin-beaten gold ornaments of the Mycenæan civilization; Chicago school children stare at the golden

ornaments which once decked Aztec belles. The highest tribute that we can place upon our altars is the sheer burning beauty of the golden chalice and candelabra; the ultimate gift we can place before our women, whether the tribal bride of an African head-hunter or the chatelaine of a Park Avenue pent-house, is the tribute of gold. It is for this reason—the intrinsic beauty and appeal of the metal—that men came first to seek it, that men still cherish it today. This is the primal attitude that draws mankind to gold.

Yet today a second attitude may seem to overshadow this, man's attitude toward gold as money, his use of the metal in the market place. Here—where gold is taken as a measuring stick of value—controversy rages free. If, because of obvious convenience, such a measuring rod be used, why could not another rod be decreed by law? Why, for that matter, could we not use iron or copper or even paper or other commodities for our money, ignoring golden money entirely in our world?

The answer rests in the fact that, once a civilization passes beyond the cumbersome and unsatisfactory stage of barter, any currency, or commonly accepted medium of exchange, must possess certain definite attributes. A long course of selection and elimination throughout history has shown that gold, among all available media, possesses these attributes in greatest number.

What characteristics should a material have to serve best as money?

First: The material must be physically attractive and desired by mankind. Gold!

Second: It must be durable. The more resistant to wear and disintegration, the better it will serve the purpose. Gold!

Third: Each unit of the material must be easily identifiable as similar and equivalent to other units of the same material, i.e., by distinctive weight, color, fineness, texture. Gold!

Fourth: It should be easy to transfer and transport. Gold!

Fifth: The material should be scarce enough to possess relatively high value. Gold!

Sixth: Like the other things whose value it measures, the material must be the product of human labor, capital and brains. Gold!

Further, the total quantity of gold existing changes very slowly, because the annual rate of acceleration in production is remarkably small, and the wastage of gold is practically nil.

The history of the world's experiences with money should indicate that, of all the numerous forms of money employed since the beginning of mankind, only one material has withstood the acid test of time. That material is gold.

The only standard that people throughout the world accept today is a gold standard, not because governments nod approval or disapproval of gold, but because of certain attitudes on the part of human beings toward gold. Therefore, gold will be accepted throughout this text as the only suitable base of a monetary system. Hav-

ing then accepted gold as the substance of our medium of exchange, we express the value of any commodity finally in terms of gold. This we call the *real* price.

Even if all of the governments "abandon the gold standard", prices will always finally gravitate toward an expression in terms of gold. This truth cannot be too strongly emphasized.

CHAPTER IX

CURRENCY AND CREDIT

CURRENCY and credit are pieces of paper; and, like commodities, they are priced in gold, according to the law of supply and demand. The demand for them is largely influenced by the probabilities of their redemption in gold at par.

In our exploration of the law of supply and demand, the law of price, we must examine carefully the various elements of currency and credit for the effects they have on gold prices and paper prices. Currency and credit are of interest to us principally because of their bearing on prices.

Currency and credit, as we have said, are simply a great variety of pieces of paper that say in effect that they will be redeemed in something of value.

Currency, of course, is made up principally of bills and bank notes, and includes also coins. Coins take their place with paper money, or with real money, according to the relation of the values stamped on the coins to their intrinsic values.

Credit instruments include the promissory notes of individuals and corporations, book accounts, bank checks and drafts; industrial bonds; and all federal, state, and municipal securities.

These pieces of paper, currency and credit, vary in their value, as the probabilities vary of their redemption at par in gold.

When doubt begins to arise in the market places that certain of these pieces of paper can be redeemed readily in gold at par, the paper begins to sell at a discount; in other words it sells for something less in gold than its face value.

Our money, or medium of exchange, is made up of gold, currency, and credit; or of gold and pieces of paper.

Gold prices, or real prices, pay little attention to "going off gold". They fluctuate in accordance with the supply and demand for commodities and the supply and demand for gold.

Prices may be expressed in terms of pieces of paper; that is in paper money. But these prices attain reality only when they are expressed in terms of gold.

Paper prices, or "off gold" prices, will vary from gold prices in accordance with the probabilities of the redemption of the paper in gold at par. As the probability of redemption in gold at face value increases, the disparity between gold prices and paper prices will decrease. On the other hand, as this probability lessens, the gap between paper and gold prices will increase.

CHAPTER X

GOLD AND PAPER

IN ATTEMPTING an explanation of the relationships, first of gold and currency and credit; second of the supply and demand for commodities; and third of gold prices and paper money prices, we have found it necessary to introduce two or three additional physical instruments in order to construct analogies that would maintain the necessary parallel with these various actions and reactions that are going on in the economic system.

We feel that we have been able to limit reasonably the introduction of new physical instruments, and we beg of the reader some patience in following the analogies through. We hope that he will be rewarded by a clearer understanding of these relationships. Our own experience has been that the physical analogies have been very useful in defining more clearly and making it much easier to grasp and retain the various relationships that exist in the present scheme of prices. This scheme, of course, is complicated because of several extra elements now present that are not in it during normal times.

* * * *

We have already pointed out that the medium of exchange is made up of a combination of gold and cur-

rency and credit. We tried to show in a simple way how the relationship of gold to currency and credit might affect the price level.

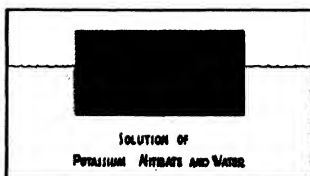
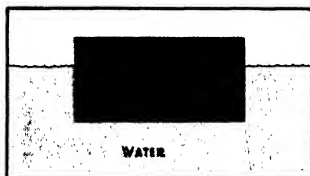
This explanation was all right as far as it went and covers the situation that exists in normal times. By "normal" times we mean periods when there is no extraordinary scramble for gold, and when the probabilities are practically one hundred in a hundred that whatever pieces of paper called currency and credit are floating about in the market places can be redeemed readily on demand for gold.

We know now, from hard experience during our own generation, that too often the bits of paper that are issued are not only difficult to redeem in gold but unfortunately are often defaulted. We are forced, therefore, to make a critical examination of the relationships between gold and currency and credit, because they exert an important influence on gold prices, and a very important effect on paper money prices.

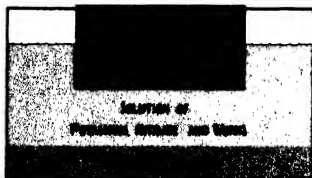
We observe, in our day-to-day experience with prices, that paper money prices, like gold prices, are subject generally to the same influences of the supply and demand for commodities. However, paper money prices sometimes have a way of taking flight from gold prices. It is the fundamental cause of this flight, and some of the relationships traceable during various periods of the flight, that we now wish to explore.

The first thing that we confront, in our attempt to build up a physical analogy that will explain the eco-

POTASSIUM NITRATE - WATER (GOLD - CURRENCY AND CREDIT)



Water may be used to represent currency and credit, and potassium nitrate may be used to represent gold. By dissolving potassium nitrate in water a solution is obtained which has more density than plain water. Therefore, an object floating in such a solution would float higher out of the solution than it would out of plain water:



20° CENTIGRADE

As more potassium nitrate is added, the object rises in the solution until, at normal temperature, the solution becomes saturated, i.e., no more potassium nitrate can be dissolved in it. When this point of saturation is reached, any additional potassium nitrate will only sink to the bottom and the density of the solution will remain constant.



114° CENTIGRADE

If, however, the solution is heated, this additional potassium nitrate will be dissolved until the density of the solution reaches a maximum value at a high temperature. As the density increases, the float will rise in the solution. (Confidence increases --- prices rise.)



30° CENTIGRADE

As the solution cools, the potassium nitrate will precipitate out again and drop to the bottom. This decreases the density and the float sinks deeper into the solution. (Confidence ebbs -- prices fall.)

conomic processes involved, is the necessity of changing the proportions of the gold and currency and credit in the medium of exchange.

In order to preserve the physical analogy, we have taken a combination in solution of potassium nitrate and water. Potassium nitrate is a white salt that looks very much like ordinary table salt, but has a peculiar quality or characteristic that recommends it for our purpose. Potassium nitrate has a wide range of solubility according to the temperature of the water. If we heat the water to a high temperature, the water will dissolve a great deal more potassium nitrate than table salt. On the other hand, if we reduce the solution to a very low temperature, more of the potassium nitrate will be precipitated out of the solution than would be the case with table salt.

In Figure 9 we have developed the analogy between the solution (potassium nitrate and water), as affected by temperature, and the medium of exchange (gold and currency and credit), as affected by confidence. All of the processes outlined in this potassium nitrate-water analogy have parallels in the relations of gold and paper. As gold is added to the medium of exchange, or as the temperature of trade rises, prices rise. On the other hand, if the condition known in business as "cold feet" sets in, the gold precipitates or "freezes" out of the solution and gold prices of commodities sink.

Let us consider the analogy as we have shown it in Figure 10. The tank contains a solution of water and

potassium nitrate that corresponds in economics with gold for the potassium nitrate and currency and credit for the water. We have shown our old friend the jar on the block and the price index at the right of the block.

We are concerned with a method, on the one hand, of introducing currency and credit or gold into the medium of exchange tank, and, on the other hand, with a means for withdrawing currency and credit or gold from the medium. In the analogy we must have a method for changing the proportions of potassium nitrate to the water in the tank to correspond with the changes that go on in the money (gold, currency and credit) scheme. We wish to examine the effects of the changes in the proportions of these various elements.

We have put a receptacle at the bottom of the tank, a precipitation chamber surrounded by cooling coils, in which we can precipitate the potassium nitrate. As this salt is precipitated, it may be drawn off through a valve at the bottom of the cooling or precipitation chamber.

In order to take *water* out of the solution, we have passed it through a pipe circuit with an evaporation chamber in the circuit. As the water passes this point in the pipe, it is heated by the flame which impinges on the lower side of the pipe. The water is thus evaporated out through the top of the chamber as shown in the figure. Now this looks rather complicated, but we have had to go to all this trouble in order to provide a means of illustrating how the proportions of gold, currency and credit change in the economic system.

THE ANALOGY FOR CHANGING THE PROPORTIONS OF GOLD TO CURRENCY AND CREDIT IN THE MEDIUM OF EXCHANGE

SUPPLY

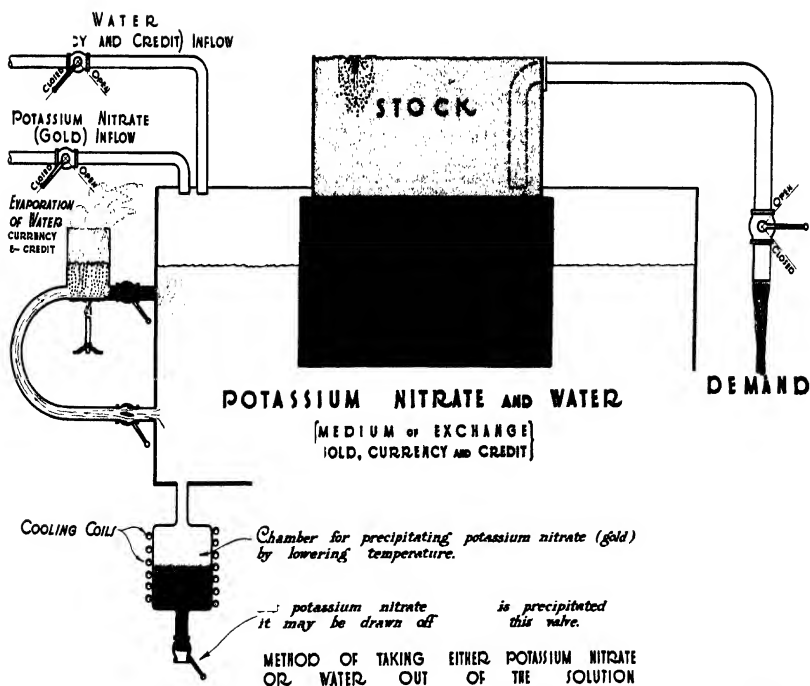


FIGURE 10

These proportions are at the nub of the whole relationship between gold prices and paper money prices.

Let us go over Figure 10 again in terms of the economic elements. We make the following observations:

The currency and credit inflow pipe makes it possible to introduce currency or credit into the tank. The gold inflow pipe makes it possible to introduce gold into the tank.

The arrangement on the left is for taking credit or currency out of the solution. The precipitation chamber is simply a physical analogy for taking gold out of the medium of exchange.

We have drawn the physical analogy of potassium nitrate and water to gold and paper simply in order to illustrate how the proportions of gold and paper can be varied in the medium of exchange. In the succeeding illustrations we make no attempt to represent the devices necessary to take gold or currency and credit out of the solution. We have, for purposes of simplicity, merely shown a pipe for drawing off currency and credit and one for drawing off gold.

THE RELATION OF PAPER MONEY PRICES TO GOLD PRICES

We pointed out in our short discussion of the medium of exchange in Chapter VII that the specific gravity or the density of the solution made up of gold, currency and credit has an important influence on gold prices. Furthermore, it has an even more important influence on paper money prices. We shall now present two or

three more physical elements that we believe will make it easy to follow the whole problem through, and will render clear and tangible the most important element in the whole situation—the relation of paper money prices to gold prices.

We make use of a hydrometer, an instrument that records the specific gravity of a liquid. It is the same type of thing that the service station attendant puts into the battery of a car to test the strength of the solution; in other words, the proportions of sulphuric acid and water in the battery. A hydrometer consists of a long and slender stem, with a weight at the bottom that will make it float vertically in the liquid to be tested. Of course, as the density or specific gravity of the liquid decreases, the hydrometer sinks further into the liquid. On the other hand, as the density increases, the hydrometer tends to sink less deeply into the liquid. A scale is marked on the long, slender stem, from which the readings of the density can be taken.

In Figure 11 the hydrometer is placed to the left of the block. As we change the density of the solution, the hydrometer will rise or fall in this liquid. Accordingly, it provides an index to the density of the solution; or, in economic terms, the proportions of gold and paper in the medium of exchange. For our purposes we have marked the hydrometer with a reading at the bottom of 1.00, and have graduated the reading upward as follows: .80, .60, .40, .20, and 0 at the top.

As the hydrometer sinks into the solution, the reading goes down. This happens when the solution has a lower specific gravity or density, or, to swing over into

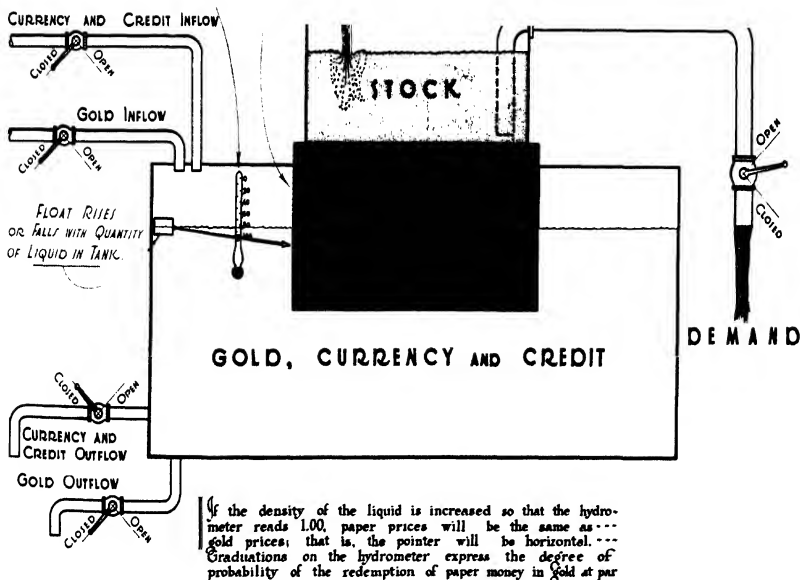
WHY PAPER MONEY PRICES VARY FROM GOLD PRICES

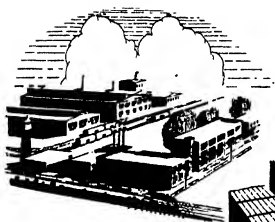
SUPPLY

HYDROMETER IS INTRODUCED TO
MEASURE DENSITY OF THE LIQUID.
IT IS PIVOTED AT THE 1.00 POINT

THIS SCALE HAS
BEEN ADDED

Hydrometer rises or sinks in the
liquid according to the increase
or decrease in the density of the
liquid.

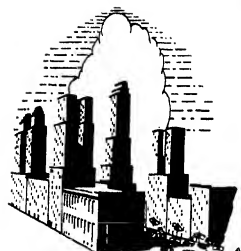




S U P P L Y

WHY PAPER MONEY PRICES VARY FROM GOLD PRICES

Illustration of the Previous



CURRENCY AND
CREDIT INFLOW



GOLD INFLOW

CURRENCY AND
CREDIT OUTFLOW

GOLD OUTFLOW

D E M A N D

economic terms, as the amount of gold in the money scheme decreases in proportion to the elements of paper.

We have placed the reading of 1.00 at the bottom of the hydrometer because, when the monetary system is stable or normal, when confidence is complete, and when pieces of paper that are being used for currency or credit are easily redeemable in gold at their face value on demand, the solution is saturated and the hydrometer will express the normal relationship between gold and paper; in other words, a relationship of unity, or parity; that is, 1.00.

In passing, it is interesting to observe that pieces of paper—currency and credits—are never redeemable at any premium over gold. Therefore, the maximum reading that we can get for the economic scheme is 1.00.

In order now to tie in our final relationship between paper money prices and gold prices, as determined by the condition of the monetary system and by supply and demand, we must introduce one more “gadget”.

At the left in the tank, we have placed a small float. We have taken a fine wire pointer and hooked it on the float so that it swings freely. The pointer is also hooked on the hydrometer at the reading 1.00. It is fastened so that the hydrometer can move freely up and down while holding the pointer pivoted at 1.00. Thus the reading on the paper money price scale is indicated by the pointer, and it is this reading that gives us the paper money price.

It is interesting to note from Figure 11 that when the hydrometer reads 1.00, the wire pointer will read the

same for the paper money prices on the left and the gold prices on the right.

We observe from Figure 11 that paper money prices react to the supply and demand for a commodity just as gold prices react to supply and demand; in other words, as the supply of the commodity increases paper money prices go down (the block sinks further into the liquid). On the other hand, as demand goes up, prices will rise (the block rises in the solution) and we shall get a higher reading on the scale of paper money prices.

The point however that we are trying to illustrate in this rather elaborate analogy is the relative importance of those two price-determining factors. When the monetary system departs from the gold standard and, accordingly, paper money prices replace gold prices as the means of quoting values, these paper money prices can be far more influenced by the relation between gold and paper than by the supply and demand for commodities. The supply and demand for commodities are still important influences affecting paper money prices. But *a greater influence* arises out of the condition of the exchange medium.

The specific gravity of the liquid in the tank, as measured by the hydrometer, is an analogous expression of the proportion of gold to currency and credit. In economics this expression is made in terms of the probability of redemption in gold at par of the pieces of paper that go to make up the currency and credit circulation.

We poor humans are easily intrigued by the names of things. When a certain name has always meant the same thing to us, it is hard to imagine it as meaning anything else. So it is with the dollar—the paper dollar—as we know it today. Our former gold dollar is now hidden from our sight, and, when next we see it, it may no longer be the same dollar we have always known. The volatile paper dollar, worth so much in gold today and something else tomorrow, has become the only visible dollar for us; the only dollar that we now think about when we attempt to measure price. When we consider this dollar, and the condition of the exchange medium which it represents, we shall see that this condition, for the present at least, has become the major factor in determining paper dollar prices.

SUMMARY

Gold prices of a commodity are proportional to the demand for the commodity and inversely proportional to the supply of the commodity.

Gold prices of a commodity are proportional to the supply of gold and inversely proportional to the demand for gold.

Currency and credit are the pieces of paper signed by individuals and institutions, including the government, that say in effect, "On demand, or at some future date, I promise to pay so many ounces of gold, for value received."

These pieces of paper and gold go to make up the

medium of exchange. The pieces of paper, payable by the government on demand, are paper money.

Paper money prices of a commodity are proportional to the demand for the commodity and inversely proportional to the supply of the commodity.

Paper money prices of a commodity, in their relation to gold prices, are inversely proportional to the probabilities of redemption of the paper at par in gold.

Paper money prices are the same as gold prices when the probabilities are 100 in 100 that the paper is redeemable at its face value (or parity) in gold.

CHAPTER XI

THE GOLD STANDARD

THE PROCESS OF "GOING OFF GOLD" AND ITS REACTIONS ON PRICE LEVELS

LET us consider, now, what happens when a country from the contractual standpoint, goes "off gold".

We must, of course, keep track, particularly, of the relation between paper money prices and gold prices. The problem becomes more complicated when, in addition to observing the reactions of supply and demand in terms of commodities, and the same law in terms of gold, we must also take into account the supply and demand for paper money.

If we are to be economically alert, we cannot take it for granted that paper money prices will vary in the same manner as gold prices. We must scratch our heads a bit and try to foresee, even though it drives us into a bit of tough thinking, what will actually happen—what will be the relation of paper to gold and, accordingly, to commodities.

It is a bit of economic realism that a piece of paper of any kind, at any time, is worth only what it can be redeemed for in the market places. We certainly have

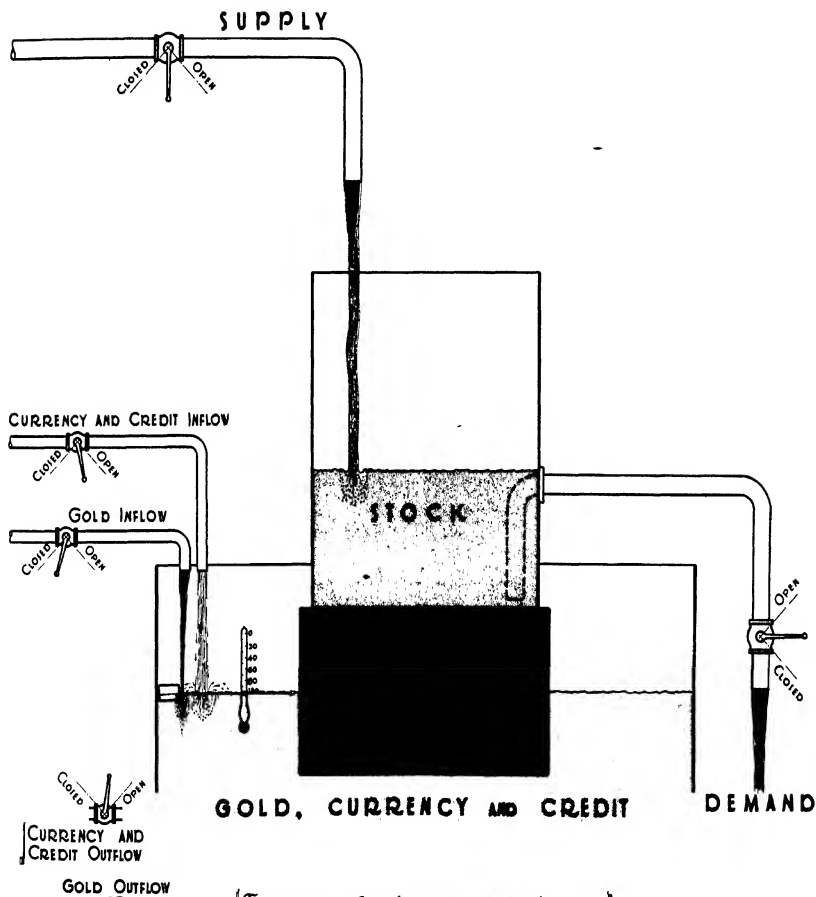
had our share of experience as individuals and as institutions and as a nation, during the past generation, in discovering that important documents, or important looking documents, may turn out to be, after all, only "scraps of paper". We are quite justified, therefore, in making a skeptical examination of paper money.

In Figure 13 we have set forth another physical analogy of the type previously presented. All elements are the same as were shown in the preceding illustrations on real or gold prices. We observe, as usual, that gold prices are proportional to the demand for the commodity, and inversely proportional to the supply of the commodity; the price rises as the demand rises, and falls as the supply increases. Further, of course, gold prices for the commodity are proportional to the supply of gold, and inversely proportional to the demand for gold.

Figure 13 illustrates the condition of the medium of exchange when gold prices and paper money prices are alike. Using this figure as a base, we are enabled to examine the process of "going off gold" and the subsequent reactions on price levels. Here we must continue with our potassium nitrate analogy, and show gold as potassium nitrate, a sort of sludge or salt on the bottom of the tank, with temperatures paralleling the degrees of confidence. As explained in Chapter X, potassium nitrate has a wide range of solubility under various conditions of temperature.

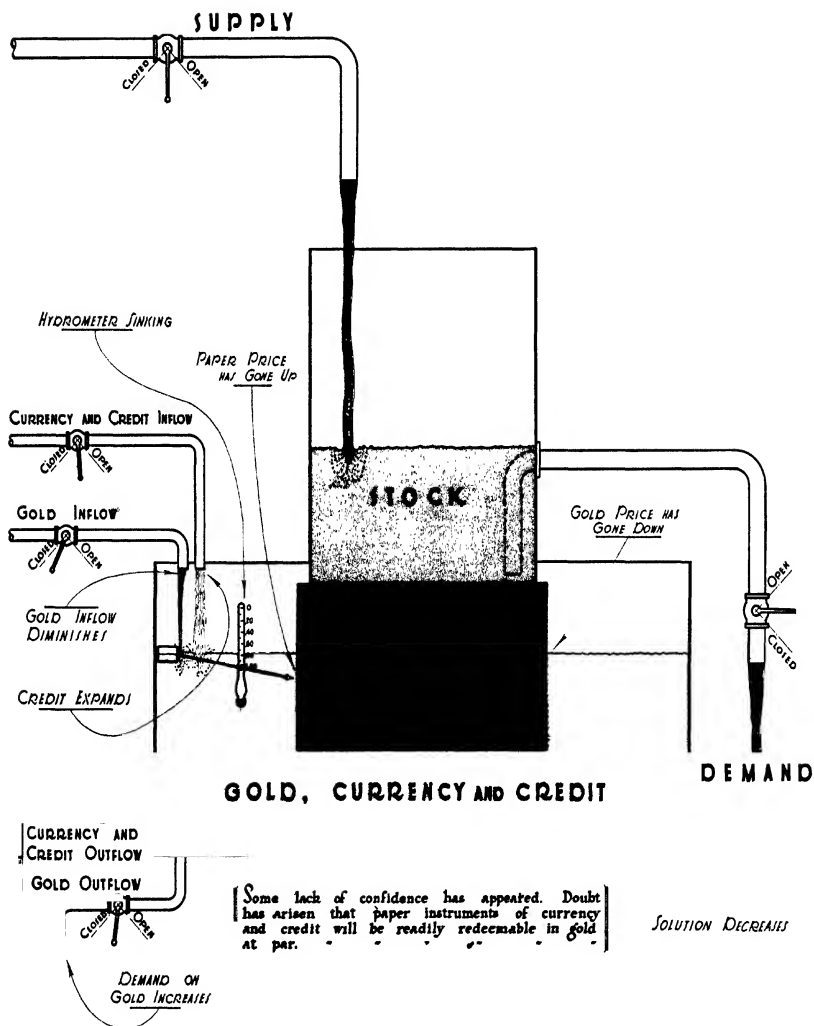
We have an excellent analogy here between tempera-

PAPER MONEY PRICES AT PARITY WITH GOLD PRICES



[The medium of exchange is normal; that is -- confidence prevails that the paper instruments of currency and credit are readily redeemable at par in gold.]

PAPER MONEY PRICES DIVERGING FROM GOLD PRICES



ture and confidence, which we have illustrated in Figure 9. As people get "cold feet", and a chilly economic atmosphere develops, we have—twisting this over into terms of the physical analogy—a low temperature, which precipitates the potassium nitrate out of the solution.

In the process of going off gold, the analogy is quite complete. A very low temperature will precipitate a great deal of the potassium nitrate (gold)~ out of the solution (medium of exchange) and deposit it on the bottom of the tank. The salt will then become unavailable for taking part in the solution and giving it substance or specific gravity. Accordingly, it will be very ineffective in supporting the block. And, therefore, gold prices fall very rapidly.

In Figure 15, we show an outflow pipe and valve in the bottom of the tank. This valve is closed, theoretically, by government restrictions on gold exports, so that gold cannot leave the country. However, considerable gold will still continue to flow out of the country. Despite all the prohibitions imposed by government, men can usually find some way to work in harmony with the law of supply and demand.

We show by means of the potassium nitrate analogy that a country really goes off the gold standard when the gold is removed from its normal function (is precipitated out of the solution) of supplying substance to the circulation of currency and credit. In economics the gold precipitates out of circulation because people

suddenly begin to hoard it. Various means are resorted to for grabbing gold and secluding it, and it thus loses its ordinary function of providing substance to the medium of exchange.

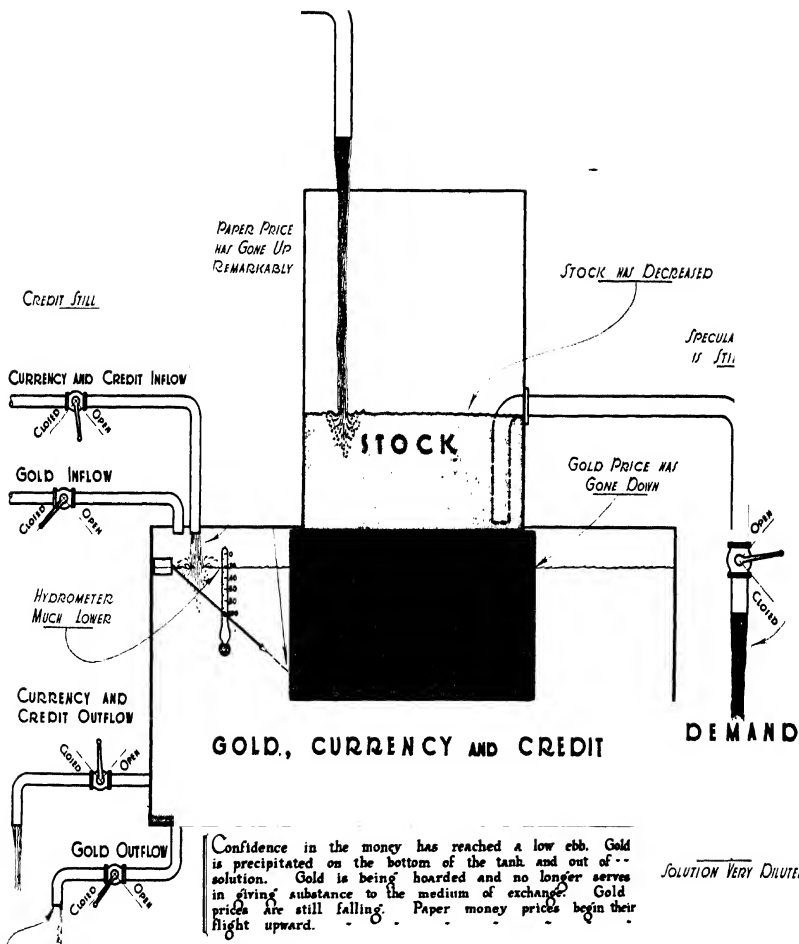
The preferable step at this point would be for the government, instead of taking part in the hoarding, in other words impounding the gold itself, to open immediately a free gold market, and let the currency and credit papers be exchangeable every day in this free gold market for the gold that is available. *Meanwhile, as a concomitant of this, it would be absolutely necessary for the government to balance its budget and its foreign payments.* When this is done the free gold market will begin to attract the gold back into circulation according to the law of supply and demand.

Now let us observe further what is going on in the analogy, Figure 15. Because of the lack of confidence in paper dollars, there is a flight from paper currency into commodities, and we have an increased commodity demand, particularly a speculative demand. The weight of the stock is thus decreased and gold prices will have a tendency to rise. This tendency, however, will be more than offset by the continued dilution of the supporting solution, and the final result will still be declining gold prices.

The speculative demand, because of its temporary character, will have a tendency to wear off. Means must be found, therefore, to replace it with a permanent demand, a real consumer demand. If this is not done, the reduced substance of the combination called gold, currency and credit, from which most of the gold

INFLATION UNDER WAY

SUPPLY



Government has placed an embargo on gold shipments but there is still a leakage. Announcement has been made of the suspension of internal gold.

EXTREME INFLATION

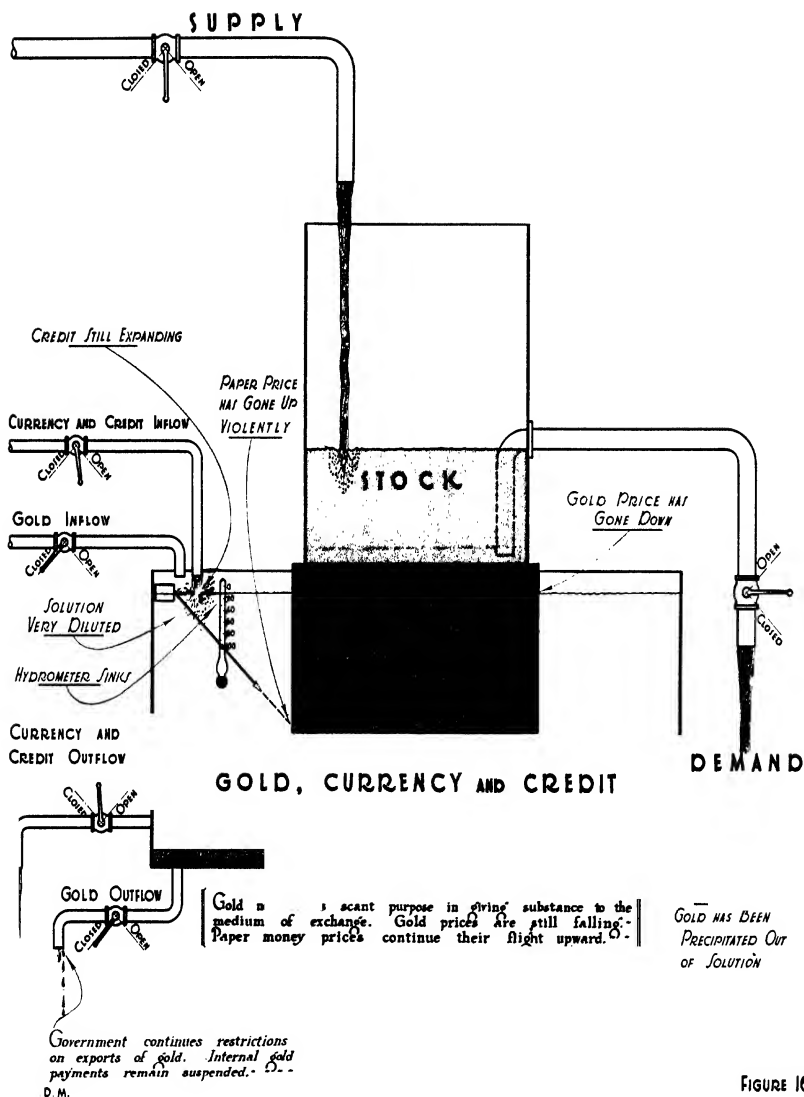


FIGURE 16

has now been removed, will cause the block to sink deeper into this medium and even paper prices will fall. When this happens the temptation arises, of course, to arrest this tendency by pumping more currency and credit into the solution, a process that will only increase the disparity between gold and paper prices. Paper prices should then rise, it is true, but *real prices*, meaning gold prices, will sink lower than before. This is illustrated in Figure 16.

GOLD PRICES AND PAPER MONEY PRICES

Gold prices, we repeat, are proportional to the demand for the commodity and inversely proportional to the supply of the commodity. Further, gold prices of a commodity are proportional to the supply of gold and inversely proportional to the demand for gold.

In the same way, paper prices are proportional to the demand for the commodity and inversely proportional to the supply of the commodity.

However, we now confront the additional economic fact that paper prices are inversely proportional to the probabilities of redemption of the paper at par in gold.

We might put this in plain arithmetic as follows: When paper money is at a discount of 2% in relation to gold, a bushel of wheat that will bring \$1.00 in gold will bring \$1.02, approximately, in paper money. When a bushel of wheat that sells for \$1.00 in gold is paid for in paper, which is at a discount of 10%, it will take \$1.11 in paper money to pay for the bushel of wheat. In the same manner, with paper money at a dis-

count of 30%, it will take \$1.43 in paper money to pay for a bushel of wheat, selling at a gold price of \$1.00. With paper money at a discount of 70%, \$3.33 worth of such money would be needed to buy a bushel of wheat that would sell for a gold dollar.

At various times the supply and demand relations of paper money to gold determine certain ratios in the market between the two types of money. The equilibrium that is established in this manner indicates the probabilities of redemption. In general, the discount on the paper in relation to gold is inversely proportional to the probabilities that are being expressed in the market for redemption at par.

Paper money prices equal gold prices when the probabilities are one hundred in a hundred that the paper is redeemable at par. When the paper money prices, that we can read on the left hand side of the block, as indicated by the pointer attached to the hydrometer, correspond with the gold prices on the right side, as in Figure 13, this is the ideal situation. These paper money prices will depend for this reading at parity on the proportions of gold, currency and credit in the medium of exchange.

Certain further general conclusions can be drawn from the analogies, as displayed in Figures 14, 15 and 16. We find that paper money has only an incidental rather than an inherent influence in changing gold prices. Gold prices are determined always by the law of supply and demand in terms of the commodity, and the same law in terms of gold. If we try to raise paper prices by injecting credit into the medium of exchange,

we see by our physical analogy that we further decrease the specific gravity of the supporting solution for the block and the jar, and that this causes a fall rather than an increase in gold prices.

RETURN TO THE GOLD STANDARD AT ORIGINAL PARITY

After a country has been "forced off gold" (i.e., after paper prices have diverged from gold prices to an extent that has brought formal suspension of the redemption of paper currency in gold at the former legal parity, and an embargo on the export of gold has been imposed), the traditional consequence is a period of "depreciated currency". The medium of exchange tends to become more and more diluted through the continued injection of new currency and/or credit. Gold stocks remain static, or tend to increase at a less rapid rate than the "water" in the medium.

From this point, two courses of development are possible:

Either (a) a vigorous and "organized" deflation of currency and credit may be brought about, with currency and credit being drawn out of the medium faster than they are poured in, and with new gold finding its way in at a faster rate than it leaks out. If, under these circumstances, the specific gravity rises to its former density, with the hydrometer reading at 1.00, currency redemption at the old legal parity can be resumed (as occurred in England's temporary "return to gold" in 1925). By bringing the ratio or proportions of gold and paper into such a state of equilibrium the reading of

gold prices on the right hand side of the block will be the same as the paper money prices indicated on the left hand side by the pointer attached to the hydrometer. This means, of course, going back on gold. The process is illustrated in Figures 17 and 18.

Or, more commonly, (b) the "inflation" continues further, with the currency and credit in the medium increasing faster in proportion than the gold. In this event the government may, at what it considers the appropriate point, "fix" by fiat the relationship of gold to paper at a new parity—a process that is known as "revaluation" or, since the revaluation of the paper is at lower gold equivalent, as "devaluation". This is the process that was utilized in France, Belgium and Italy in their return to the gold standard. This procedure is usually facilitated, and appraisal of the proper "return point" can be made more accurately, by the establishment of an *open market for gold* ("free gold market"). In such a market gold is bid for in terms of the current paper money. Its "paper" price, and hence conversely the gold value of this paper, is thus established under the law of supply and demand. Upon the resumption of gold payments at a fixed price by the government, this open market for gold is, of course, superseded by the "fixed" buying and selling rate—the rate of "redemption"—which the government establishes.

The effect of a "return to gold" by the first method (a), according to our physical analogy, is the return of the hydrometer level to 1.00, at which point paper prices will again correspond exactly with gold prices. Figure

RETURN TO THE GOLD STANDARDS

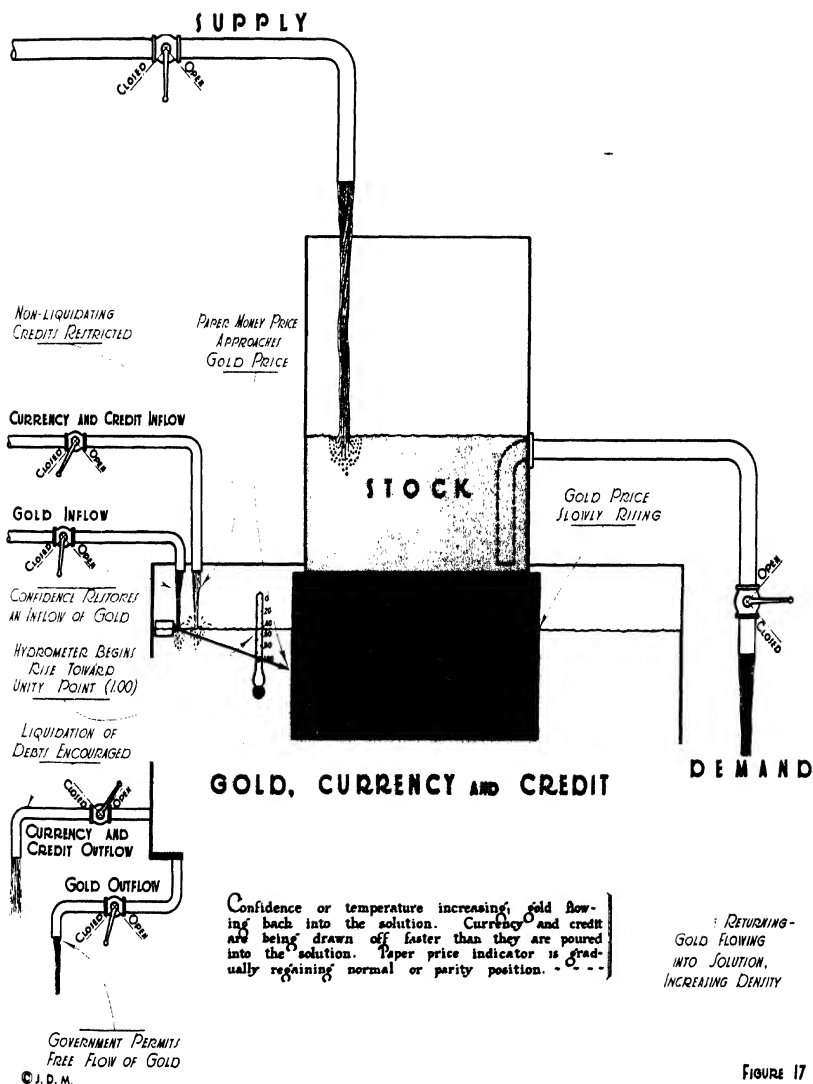
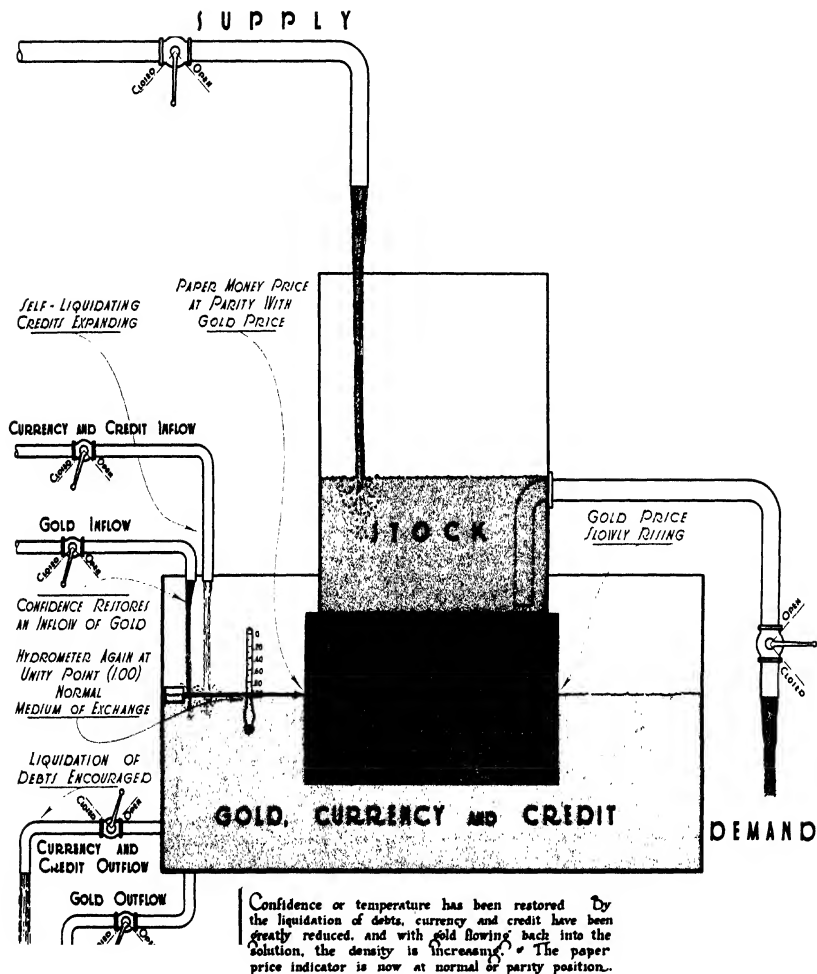


FIGURE 17

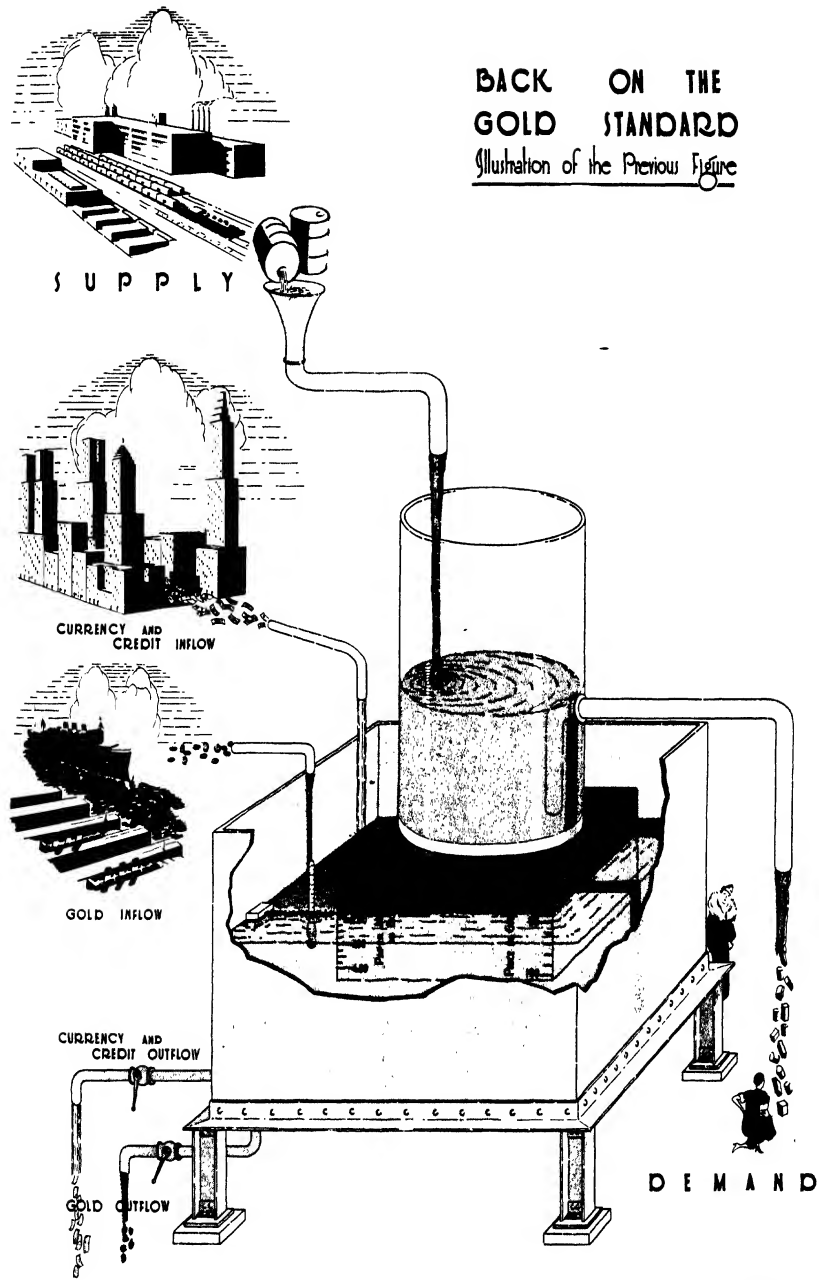
BACK ON THE GOLD STANDARD ORIGINAL PARITY



PERMITS
FREE FLOW OF GOLD

BACK ON THE GOLD STANDARD

Illustration of the Previous Figure



18 shows the various important relationships after a return to the gold standard at original parity.

RETURN TO THE GOLD STANDARD BY REVALUATION

The effect of a return to gold under the second method (b), say at one-half the previous gold content of the currency, is accomplished in a manner that we shall try to explain in terms of our analogy illustrated in Figure 20.

When the government revalues or "devalues", what it does, in effect, is to announce publicly that, whereas the currency and credit instruments of the government previously had been undertaken for redemption at some par expressed in so many grains or ounces of gold, such governmental obligations, and all other obligations of institutions or private individuals, expressed in dollars, will be redeemable, from the effective date, in a somewhat less number of grains or ounces of gold. For our purpose, and to keep the arithmetic simple, we shall take this new "gold content", as it is called, at a reduction of 50%; that is, if a piece of paper has been redeemable at say 1000 grains, the new fiat makes it redeemable at only 500 grains.

In this way the government substitutes a new assurance of 500 grains of gold in place of the earlier promise of 1000 grains of gold. If this "devaluation of the currency", or, in other words, the official statement of the probability of redemption of government credit instruments has been accurately made, it will agree closely with the integrated judgment and opinion of the world

as revealed by the relation of paper prices to gold prices, with the result that in itself and at once the "devaluation of the currency" will not have any considerably disturbing effect on gold prices or on paper prices.

Any serious error of judgment in establishing the basis of devaluation, however, will have an immediate repercussion on *paper money prices* to a degree governed by the difference between the announced basis of devaluation and the over-all mass opinion of the validity of the new promise.

It is important to note, also, that by such an act as "devaluation" the government is powerless to establish the level of *gold prices* at any point other than that governed by the law of supply and demand.

Let us refer now to the medium of exchange in Figure 20. The government's act of devaluation will have the *effect* of cutting in two the volume of currency and credit that (in combination with gold) go to make up the medium of exchange as shown in the tank. Each piece of paper will still read the same in number of dollars, but, as its demand on the gold base in the medium will have been cut in two, the total effect on the currency and credit, so far as the dilution of the medium of exchange is concerned, will be to reduce its amount by one half. The effective specific gravity of the solution in our physical analogy, accordingly, will rise remarkably. If the government has made a wise decision on the point at which devaluation must be made effective; in other words, if the new gold content of the dollar is such that the probabilities are that all of the pieces of paper issued by the government and floating around in

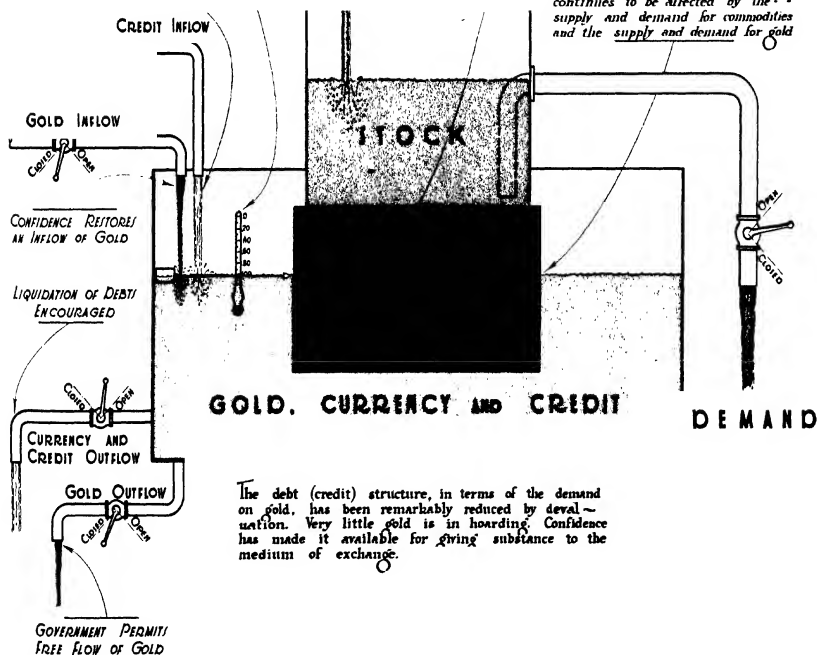
BACK ON THE GOLD STANDARD THE DOLLAR HAS BEEN DEVALUED

S U P P L Y

The hydrometer now reads 1.00—the medium of exchange is normal, pieces of paper are readily redeemable in gold at the new par.

This paper money scale will depend for its calibration on the ratio of devaluation. Paper money is now redeemable at the new par in gold.

*SELF-LIQUIDATING CREDIT
EXTENDED*



the currency and credit scheme will be readily redeemable at the new par, and if, meanwhile, the government has included in its public announcement that all of its obligations will be met on demand at the new par in gold, then the medium of exchange will be normal. In our physical analogy the hydrometer will read 1.00.

Now let us consider what will happen to gold prices as a result of such action. We can then proceed to the question of what will happen to the new paper money prices.

We have marked the index on the right hand side of the block, Figure 20, in terms of grains of gold, because we wish to avoid confusing this price with paper money prices.

There will be an increased density of the medium of exchange, because the gold in the medium will have been released for substantiating or giving substance to the medium of exchange. To put it in another way: Because of the fact that confidence in the pieces of paper called currency and credit will have been established, the gold will come out of hoarding by institutions and individuals, and will serve its normal and useful purpose of giving substance and validity to the currency and credit instruments.

In our physical analogy, this increased density of the medium of exchange will cause the block to rise in the solution, and, accordingly, will cause an increase in gold prices (an increased number of grains of gold will be the price for each commodity unit). In other words,

by taking off the strain from gold—the excited demand for it—the price of gold will go down and the prices of commodities will go up.

Now let us consider what will happen, meantime, to paper money prices. The first thing we observe at the left of the tank is that the hydrometer reading is now 1.00, and the arrow indicator is in the horizontal or normal position that it assumes when paper money is redeemable at par in gold.

Accordingly, our paper money prices, when converted into gold, will be exactly the same as the readings on the right hand side of the block. It only remains to make an interpretation of the new paper money prices in relation to these gold prices, with the point in mind that the paper instruments are now redeemable in gold at a new parity.

In setting forth the example, we have assumed a devaluation of 50%; that is, to make the arithmetic simple, a \$100 bill that, at the old parity, was redeemable at 2322 grains of gold, is now redeemable at one-half this amount or 1161 grains.

Accordingly, if we assume that gold and commodity prices have come into an equilibrium that gives us a reading of 34.83 grains on the right hand side of the block, the gold reading on the left side of the block will be exactly the same, except that these 34.83 grains now, instead of representing \$1.50, actually represent, under the new parity, \$3.00 in paper money.

Whether paper money prices will continue to be

identical from then on with gold prices will depend, of course, upon two factors; first, whether the government has picked the right point for devaluation; and, second, whether the future fiscal policy of the government will make it possible to maintain continual redemption of its paper obligations at the new parity. *The essence of this fiscal policy is, of course, a balanced budget and balanced foreign payments.*

-

In closing this discussion, we should like to express the devout hope that individuals and institutions, including the government, will be able to arrive at the point, in the not too distant future, when they can again begin to respect their contractual obligations. We hope at some early day that pieces of paper will again be redeemable at such values as they agree to fulfill. We hope, when the government sells us some currency or a bond for something of real value, and says on the face of it that the currency or credit is redeemable in gold (a certain number of grains or ounces of gold) that it will again be able to substantiate its undertaking.

This, to put it simply, is what we mean by going back on the gold standard.

SUMMARY

Government decree has only the effect of saying, "We cannot or will not meet our obligations at their face value in gold." It does not change the principles of the

law of supply and demand, in other words, the various forces in the economic system that affect real or gold prices.

It is important to keep the fact in mind that it is the total sum of the government's contractual obligations that is important in figuring the probabilities of the redemption in gold at par of the government's currency, bonds, and other securities. In considering these obligations, the relation of currency in circulation to gold reserves is usually one of the less important factors.

A country begins to go "off gold" when doubt begins to creep in that the country can meet its obligations; when its credit begins to sell at a discount.

On the other hand, after it has gone off gold by decree, the country and its citizens are still confronted by the economic realities of gold—and in this factual sense a country cannot and does not go off gold.

A country can get back on gold in the contractual sense only by taking such steps as will make it possible to declare again, "We can and will meet our obligations."

CHAPTER XII

THE DEBT STRUCTURE

A DEBT is nothing more than a credit going in the other direction. Debts are promises to pay. Government bonds and paper money are promises to pay, in gold or its equivalent.

The debt structure comprises, in complementary form, the total currency and credit items in the medium of exchange. The introduction of these items results from promises to pay. These promises to pay, when incurred, are credits, but in reality they are also debts. The aggregate debts are always balanced by the aggregate credits—the credits *are* the debt structure.

It will be recognized that currency, meaning paper money, is really a debt of the government, and has very little difference in economic character from other forms of credit.

Promises in these days cannot have the same economic weight as gold. Under the law of supply and demand, therefore, the more debts (credits) are added to the medium of exchange, or the mixture of gold, currency and credit, the more diluted this medium becomes. And the lower prices will sink in terms of gold.

A few sidelights on the debt structure are presented

in Figure 21. Remember that we are interested in examining the law of supply and demand, and trying to arrive at the various actions and reactions in the economic movement that affect prices. As we said in our discussion of the previous figures, our aim is to determine the influence of gold, currency and credit on the so-called price index.

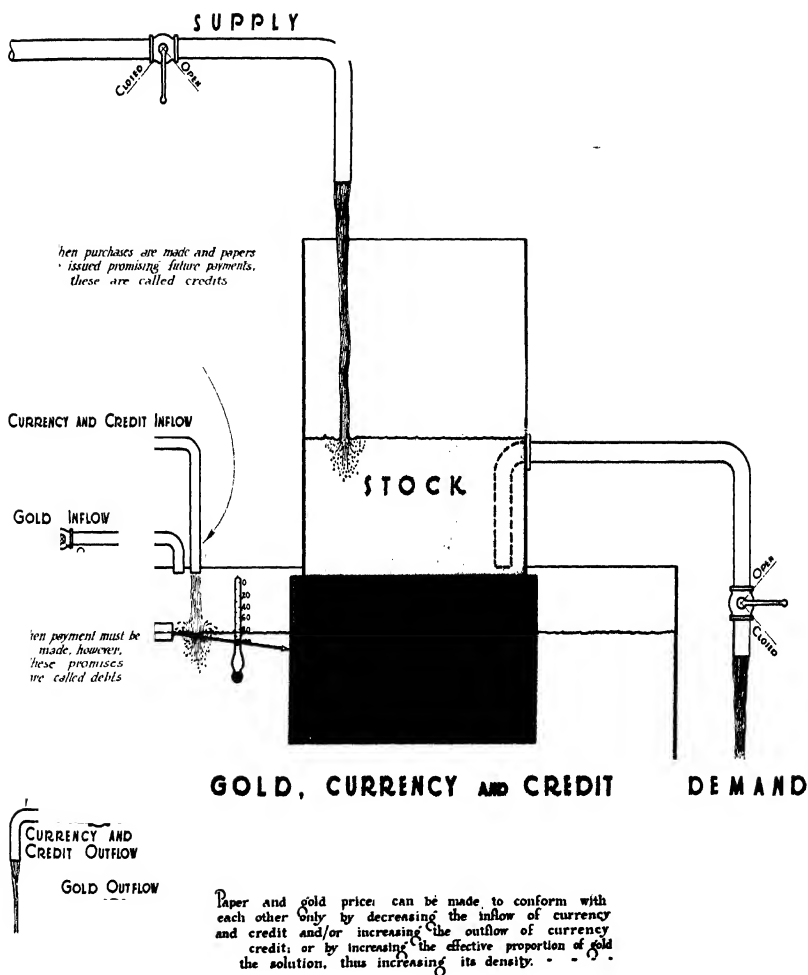
Many people tell us that by going off gold and raising paper money prices we shall reduce the debt structure. But if the pumping in of currency and credit goes on at a greater rate than the rate at which debts are liquidated (and we must keep in mind, incidentally, that whenever we flow currency and credit into the top of the tank, we are creating new debts) we may arrive at a condition where, actually, new debt is being created faster than the old debt is flowing out of the currency and credit pipe at the bottom of the tank.

It is essential to remember that a credit extended always automatically becomes a debt. Many people, who do not think these things through, believe that there is some mysterious way of extending credit or carrying on inflation without at the same time automatically increasing debt. The only way to reduce total debt is to reduce total credit. The two things go hand in hand, and are balancing factors on either side of the balance sheet.

A credit in a speakeasy, during the evening at a gay party, seems like a *credit* at the time. The morning after it always looks like a *debt*. •

There are several things that strike us as important in the physical analogy, Figure 21. There are only certain

CREDITS DEBTS



real ways to make the block rise in the solution. The first of these is by increasing the flow out of the demand pipe; the second by decreasing the flow out of the supply pipe into the stock. So much for the supply and demand for the commodity itself, and the effect of these on the price. The other effect lies in the specific gravity of the solution in which the block is floating. Here again there are only two ways to make the block rise in the solution; by increasing the amount of gold in the solution or by reducing the amount of currency and credit actually, or by devaluation.

One important thing we confront in our study of the physico-economic analogies is that when credit is used to manipulate prices (the kind of credit that is pumped into the economic scheme to influence the price structure), the whole procedure is based on a faulty understanding of what such credit can accomplish. The most obvious limitation to its value is that every time a credit is created it means a corresponding debt. When a new credit is projected, it does not and cannot reduce the sum of debt. It simply creates a new debt. When the government pumps credit into the economic scheme, what it does, in principle, is to create a new set of obligations for itself. It may relieve certain debtors, but it relieves them at the expense of the government. It simply shifts a proportion of the debt burden from the shoulders of some debtors to a new set of debtors—the taxpayers.

The second general point is that if credit or inflation-

ary schemes have any effect at all on the price structure they have the effect of depressing real or gold prices.

There is only one way a debt can be liquidated, and that is by the transfer of real values from the debtor to the creditor. A debt is incurred by the transfer of goods, or something of real value, from the creditor to the debtor, and there is only one way in the world that it can be paid back, and that is by a transfer by the debtor to the creditor of something of value in return for the value he received.

Debts can be compromised by mutual arrangements between creditors and debtors, but for us to cherish the idea that introducing paper money or any other kind of inflationary credit into the economic system can kill off debts without creating corresponding new debts of like magnitude is like believing in an economic Santa Claus.

SUMMARY

Debts can be paid only in goods, gold or services,—that is, the products of human labor, capital (accumulated surpluses of labor) and brains.

The debt structure can be liquidated only by paying the debts or by compromising them for payment. Devaluation is a method of compromising the national debt structure.

A new credit automatically creates a new debt.

New credits generally do not decrease the debt structure. Only such self-liquidating credits as facilitate the production and distribution of goods assist in liquidating this structure, because it is only by means of such goods that the debts can be paid off and removed from the general debt or credit scheme.

Stability in the medium of exchange can be secured only by so maintaining the proportion of currency and credit to the gold in the monetary system that the outstanding paper is presumably redeemable in gold at its face value, or par.

In mild inflation the government transfers the debts from one set of shoulders to another. Such part of the debt as is taken over by the government is passed along to its citizens in the form of taxes.

In wild inflation the government assumes the responsibility for the greater part of the debt, and then defaults on the whole business, to the damage of all creditors.

In devaluation the government defaults in respect

to part of its obligations, and also enables certain classes of debtors automatically to escape a part of their obligations.

As the proportion of debts (credits) to gold in the medium of exchange increases, this movement tends to make gold prices of commodities go down; and when the proportion of debts (credits) decreases, this tends to make gold prices of commodities go up.

Paper money prices work the other way. An increase in the proportion of the debt (credit) structure to gold tends to make paper money prices go up, and a decrease in the proportion of the debt (credit) structure to gold tends to make paper money prices go down.

CHAPTER XIII

PRICES

LET us agree that there are several things—we may even say many things—that make and cause prices. Sometimes we may find causes that seem, at first sight, to lie outside of this law. But, on closer study, we are sure to recognize the same old and familiar features. The law of supply and demand appears in many guises, and even in a few disguises, but when we unmask it, we find the same old and universal law. Whenever we consider the price of this or that, of anything or everything, we always come back to this rock-ribbed law from which there is no escape.

This truth constantly reveals itself in all artificial measures that attempt to fix price, or the course of prices. We have always had, and probably we always shall have, those who think they can repeal or abrogate the economic law of supply and demand. But we learn from experience that the very most such measures can ever accomplish is to postpone its operation. Sooner or later, this law must be served; always it is bound to liquidate, sometimes most painfully, every obstacle that is placed in its path. The only rule of economic sanity is to accept and recognize, not to try to fight this law.

From the start of this section our subject has been nothing but supply and demand, for, after all, this is the great economic subject that contains everything else. The point has now arrived where it seems advisable to summarize what we have already ascertained concerning this law, as an aid to the better understanding of what lies ahead.

THE LAW OF SUPPLY AND DEMAND

The Effect of Price on Supply and Demand :

The supply of a commodity is proportional to the price, and the demand for a commodity is inversely proportional to the price; that is, the supply rises as the price rises, and the demand rises as the price falls.

The Reactions of Supply and Demand on price :

The price in gold of a commodity is proportional to the demand for such a commodity and inversely proportional to the supply; that is, the price rises as the demand rises, and falls as the supply rises.

Further, the price in gold of a commodity is proportional to the supply of gold and inversely proportional to the demand for gold; that is, the price of a commodity rises as the supply of gold rises, and the price of the commodity falls as the demand for gold rises.

The price of anything is an index of its value, in relation to something else or to other things of value. These things not only must be necessary, desirable, or

attractive, but they must be the products of human labor, and accumulated surpluses of labor (capital) and brains. It has been found through many generations of experience most practicable to price things in terms of gold.

Currency issued by governments, and credit projected by individuals and institutions, including governments, create a supply of pieces of paper which say in effect, "We promise to pay on demand, or at some time in the future, so many grains or ounces of gold, for value received." These pieces of paper are put into circulation and serve as money, which furnishes a means of indexing values, or establishing prices for the exchange of goods. Let us call them *PAPER MONEY*.

Prices eventually express themselves in terms of gold. Paper money prices will coincide with gold prices only if there is unqualified confidence that the currency and credits are redeemable in gold.

Paper money prices fluctuate in relation to gold prices inversely with variations in the confidence prevailing that the paper is redeemable at par in gold. As the probability of redemption increases, the paper money prices are more nearly like gold prices. On the other hand, as the probability of redemption at par decreases, the gap widens between paper money prices and gold prices for the same commodities.

Obviously the amount of gold that provides the substance for a circulation of currency and credit is the principal factor affecting the probability of redemption. This probability of redemption is proportional to

the amount of gold, and inversely proportional to the amount of currency and credit.

To sum up, therefore, *real prices of a commodity depend on the supply and demand for that commodity and the supply and demand for gold.*

CHAPTER XIV

PRICE EQUILIBRIUM IN THE DISTRIBUTION SCHEME

WE NOW come to an interesting and practical application of the principles developed under the law of supply and demand. We confront the problem of the equilibrium of prices in the distribution scheme.

The price factor is the crux of trade in its simplest forms. The same principles that govern simple exchanges of goods in the form of barter, which might go on in a village, also govern the broadest and most complex operations in our system of distribution.

All sorts of suggestions have been made, from time to time, for changing our distribution methods. Extremists want us to abandon the capitalistic system, and change to socialism, or communism, or some other kind of illusory plan which they promise would put us all on Easy Street.

These various hallucinations typify the loose thinking current today about economics and the entire problem of distribution. These spongy, so-called "more socially conscious" schemes seem to be developed in dens, studios, or debating forums, quite regardless of how trade actually goes on and what makes it work.

What is needed is a firm grasp of simple economic

laws, based on the real attitudes of people toward things of material value. Beyond this we need only certain adjustments that will permit trade, production and distribution to follow their natural laws, without quite so much interference as we have observed in recent years.

High prices are continually cried forth as our only salvation. But we find, through a careful analysis of what actually goes on in the process of distribution, arising out of price factors, that low *gold* prices on all commodities and consumer goods, providing they are in equilibrium, are the economic salvation of our country, and the means through which we actually move into better real standards of living and better business.

If we refer to Figure 23, we shall see two supply and demand schemes, one for wheat and the other for shoes, that have been prepared in accordance with the price considerations set forth in the series of illustrations on the law of supply and demand.

The supply and demand jars shown in the upper part of the illustration, for wheat and shoes, work entirely in accordance with the law of supply and demand, as discussed in the previous chapters.

We have introduced two slide-valves controlling the flow of goods to the market from these two upper jars. See Figure 22. The slide-valves consist of two main parts: an outside cylinder, which is connected to the inflow pipe; and the outflow pipe, around which the cylinder slides up or down.

The top end of the outflow pipe is capped and sealed.

In the side of the pipe is a port or opening, which may be of any size, depending upon the required magnitude of flow. Flow occurs when any part of this port is directly opposite the opening of the inflow pipe.

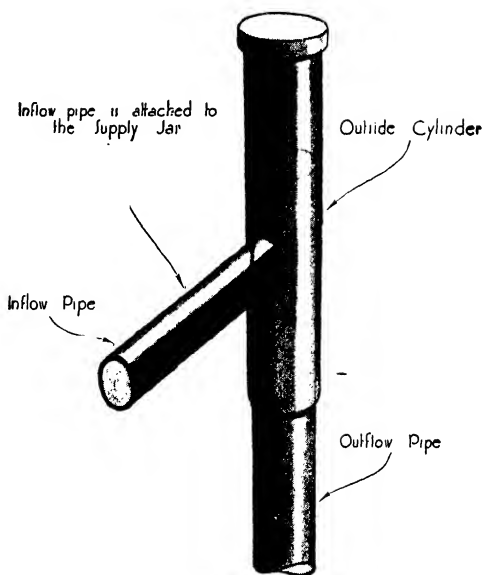


FIGURE 22. ILLUSTRATION OF FLOW

the opening of the inflow pipe and the flow is shut off. These slide-valves operate in accordance with the law of supply and demand—the lower the price the larger the opening in the valve and, accordingly, the greater the flow of goods to the market.

The operation of the valves, as shown in Figure 23, becomes automatic with the movement of the jars.

In addition we have introduced a receiving tank, with two main compartments. One is labeled "Wheat", the other is labeled "Shoes". Into these flow the wheat and shoes, respectively, from the tanks above.

Between the "Wheat" and "Shoes" compartments there is a third or center compartment. In this compartment we have introduced a new but simple physical element to illustrate the principle discussed throughout

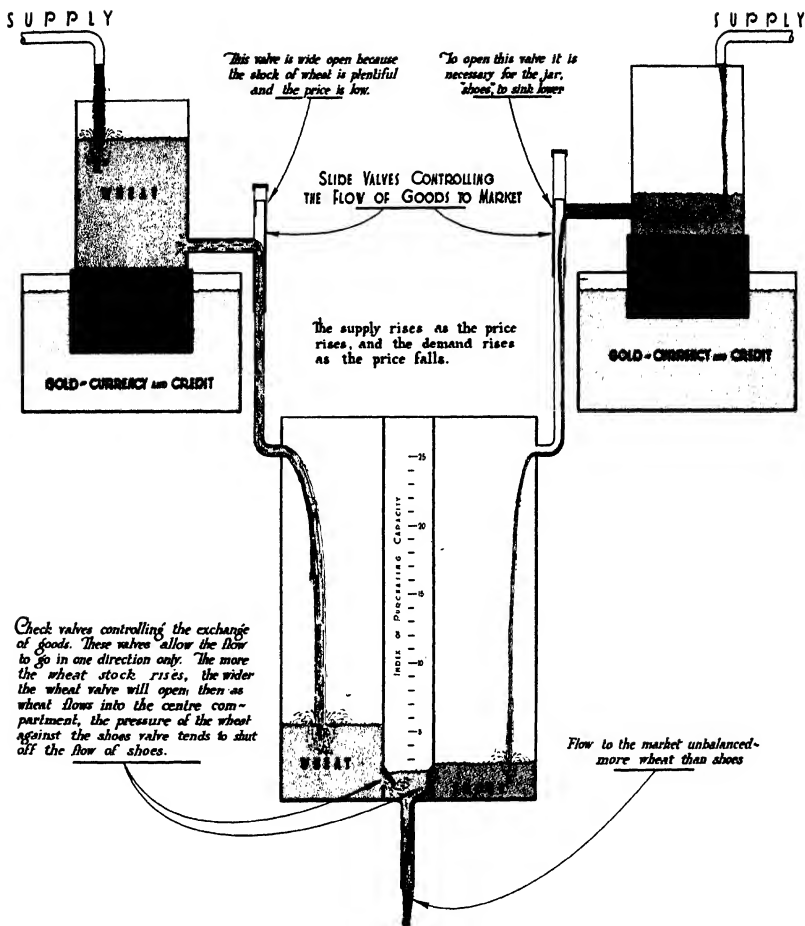
this series of analogies on price equilibrium in the distribution scheme. We refer to the valve between the wheat and the center compartments. This operates as follows: A flat piece of metal is hinged at the upper edge, so that, as the liquid called "Wheat" impinges against it on the wheat side, this liquid, by its own pressure, pushes this flat plate open. This pressure increases the opening through which the wheat can pass into the center compartment. Over on the "Shoes" side there is exactly the same kind of a valve or plate, which is pushed open by the pressure of the liquid in the shoes compartment.

If the pressure in the wheat compartment is much greater than the pressure in the shoes compartment, it is plain that the shoes valve will be pressed against from the left side and pushed shut, and that no shoes will come through this valve.

The ideal condition—the maximum flow of wheat and shoes—obviously occurs when there is the greatest pressure in both the wheat and shoes compartments, so that both valves or plates are pressed wide open, and an equal flow from both sides, wheat and shoes, goes into the center compartment. The worst condition occurs, of course, when there is a very low pressure in both the wheat and shoes compartments. Both valves are practically closed, and there is a minimum flow of wheat and shoes.

The final discharge pipe, from the center compartment in the receiving tank, is very important because it represents the flow of goods to the market for consumption. This is "what it is all about", in economics.

UNBALANCED PRICES SEVERE CONDITION



The results of a disparity between the price of products (wheat) and manufactured goods (shoes). The price of wheat is low and the flow is abundant. The price of shoes is high and the flow is limited. - -

The whole standard of living is based finally on the kinds and quantities of goods that are available for consumption. It is the proper relation of the prices of these goods to money income that results in plenty—plenty of good houses for people to live in, plenty of good food to eat, and plenty of good clothes to wear.

We have placed in the center compartment of the receiving tank an Index of Purchasing Capacity. Under favorable conditions, when the prices of wheat and shoes are both low, and both are flowing equally and freely into this center compartment, there is built up a high index of purchasing capacity.

There is a widespread but fallacious belief that the very low prices of wheat have constituted a great national tragedy for America. It is true that these prices, in conjunction with other current factors, resulted in grave hardships to the farm communities. But it was certainly something to be devoutly thankful for, during this stage of the national crisis, that the price of wheat was low enough to enable all of our people to have bread. Certainly the low price of wheat worked to the benefit of the collective economy. If other prices had been in equilibrium, the farmers also would have benefited.

We intend, later, to join several of the important commodities together,—wheat, shoes, and so forth,—in one self-contained scheme that will show just how the various low-price commodities always make the best contribution in keeping business going and the standard of

living up reasonably well. We have made the present comparison simply between two commodities, wheat and shoes, as the means of introducing the physics of the analogy, and of giving a few of the economic fundamentals, before we make the scheme more highly involved.

Figures 24, 25 and 26 show different relations in the price conditions between wheat and shoes, and illustrate what is happening as a result of the lack of price equilibrium.

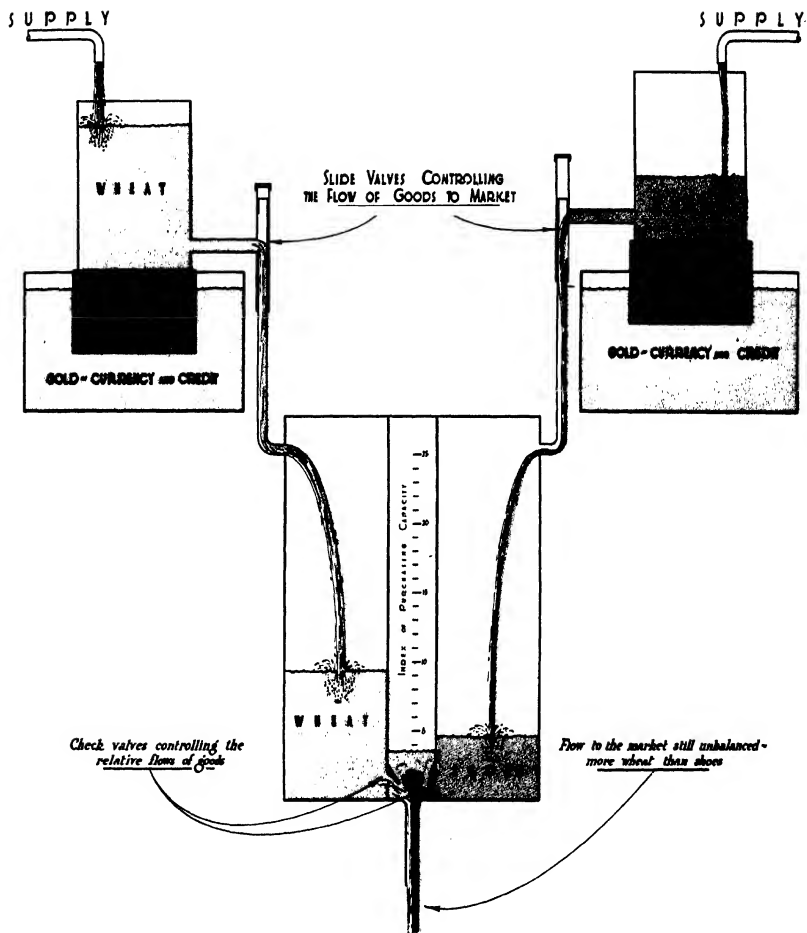
Figure 27 sets forth the ideal, where we have a free flow of both wheat and shoes at low prices in equilibrium, so that the maximum flow through the final discharge pipe makes its full contribution to a plentiful supply of goods available for consumption.

An important point in the scheme, illustrated by the hydraulic analogy, and which works in a similiar way in economics, is that as long as the price of shoes remains high (and, therefore, very few shoes are being demanded or flowing through to the market), the shoes valve remains almost closed. Meantime, the stock of shoes builds itself up; slowly to be sure, but, nevertheless, builds itself up.

Thus economic law always works—inevitably, sometimes slowly, but painfully and disastrously to those who try to obstruct its operation.

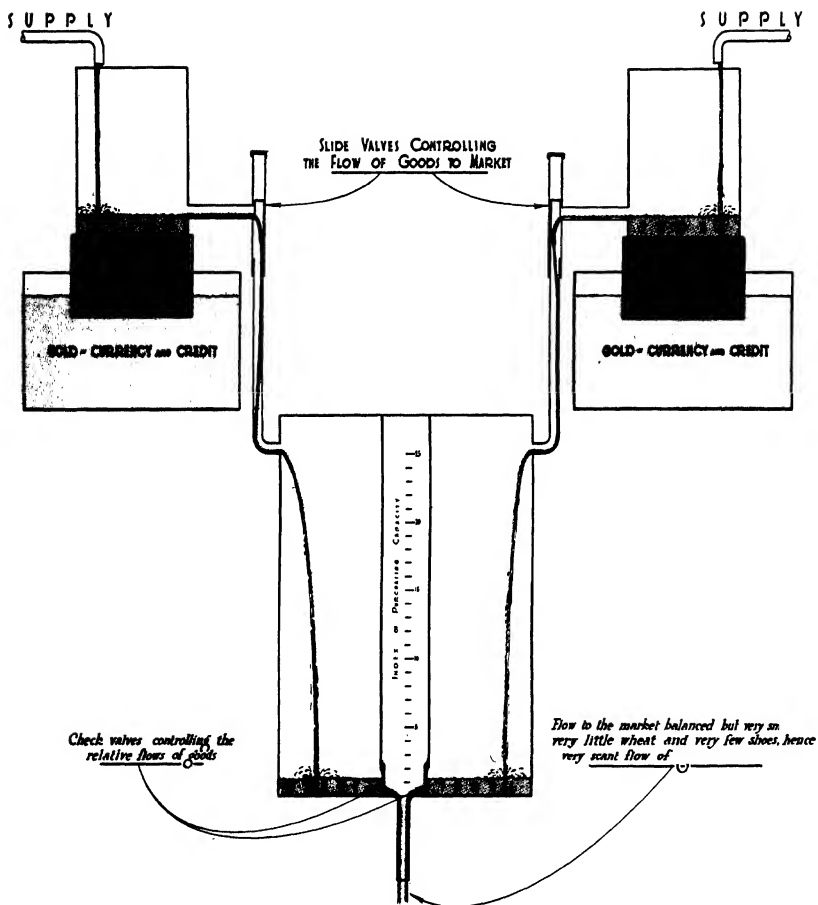
The level representing shoes rises until finally the

UNBALANCED PRICES IMPROVED CONDITION



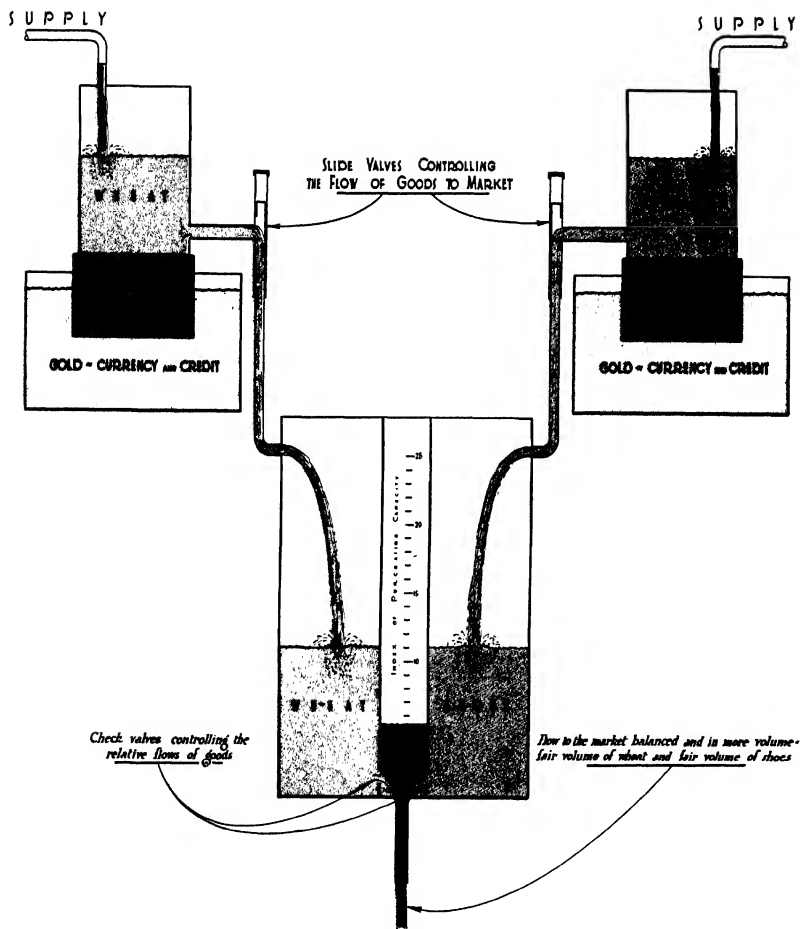
The price of shoes has fallen and the flow has increased. Consequently the total flow of goods to the market increases.

BALANCED PRICES "PLANNED" PRODUCTION



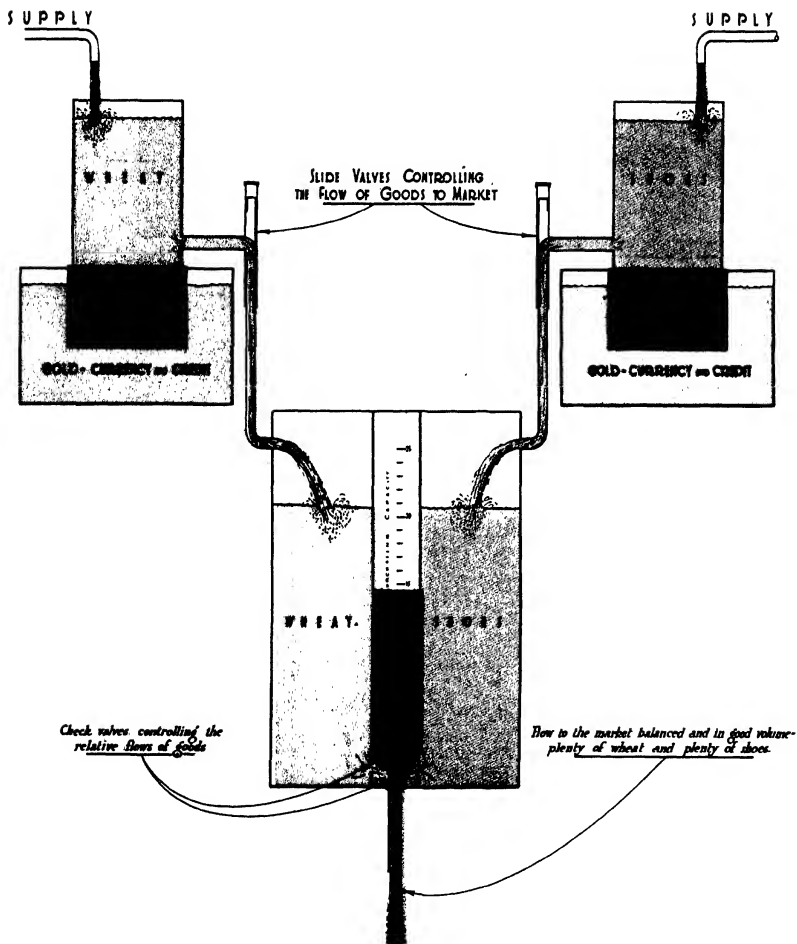
To those who have convinced themselves that "planned" production at high prices will remove the economic distress of the country, this illustration is presented.

BALANCED PRICES WHOLESOME COMPETITION



The flow of wheat and shoes is in balance.

BALANCED PRICES HIGH PRODUCTION --- LOW PRICES



This illustration shows what the goal should be. The flow of raw products (*wheat*) and manu-
factured goods (*shoes*) is at a maximum because
their prices are low and in balance. - - -

pressure opens the shoe check-valve. Meantime, due to the low-demand flow of shoes out of the slide-valve, the stock of shoes in the jar has increased substantially and has depressed the price. In other words, nothing is gained by flaunting the law of supply and demand.

If a price is maintained that will not sell the shoes, the stock will gradually increase, because demand has been choked off. This means that a loss must be taken later. If, on the other hand, the price of shoes is lowered, the flow out through the shoe slide-valve becomes greater. The shoe check-valve is kept open under the pressure of the shoes in the shoes compartment, and the flow is in balance with the flow of wheat.

We have put several commodities together in Figure 28 to show how the price equilibrium in the distribution scheme must be brought about to produce maximum business movement and maximum standards of living.

The tanks at the top of the figure are our old friends, the law of supply and demand tanks—one each for cotton, wheat and meat. Similar tanks, though not shown in Figure 28, are to be imagined for the other three commodities,—shoes, automobiles and houses.

We have chosen only six items for our illustration, because actually to illustrate the complete picture of price equilibrium for all commodities would require an immense number of supply and demand tanks, with a corresponding number of compartments in the large tank.

The same principles of equilibrium are used here that

appear in the previous figures, where we illustrated equilibrium between wheat and shoes, in order to build up the hydraulic analogy in its simplest form.

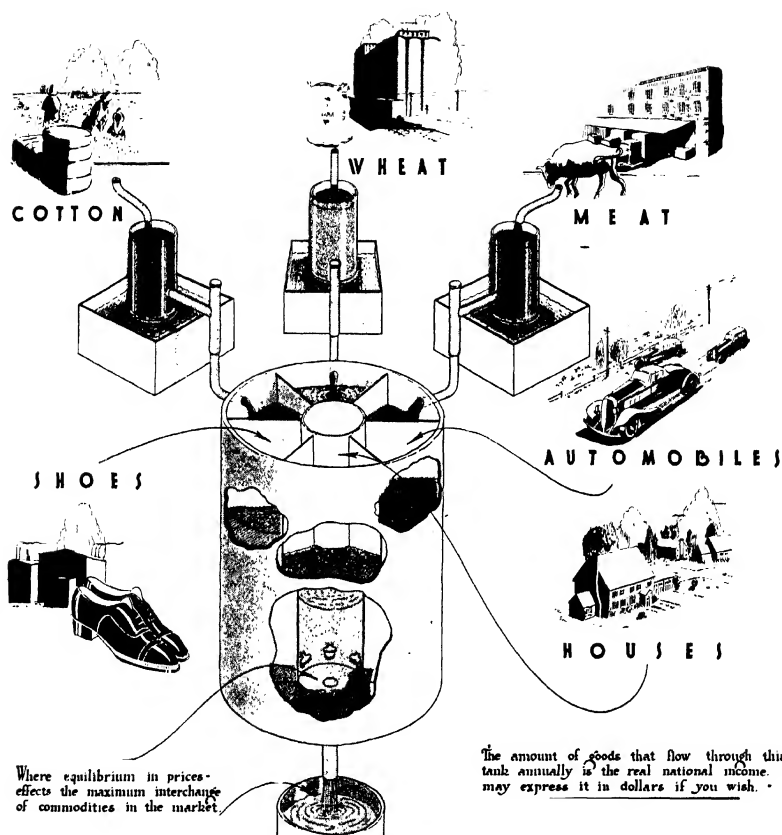
Although more factors now appear, the principles remain unchanged. The check-valves operate as described before. There is a valve for each one of the commodities, and each one of these valves—the one for houses, for instance—has an effect on or is affected by all the other valves.

If the price of wheat is very low, and the stock in the compartment in the large tank fills up, the valve for wheat will be wide open. The liquid in the center compartment, therefore, will press hard against the valves for the other compartments and tend to keep them closed. However, the wheat will flow through freely so long as there is a high head pressing against this particular valve. The same is true for cotton, if it happens to be low priced, and the same for meat. In the case of houses, however, which are entirely out of line in price, the valve for this product will continue closed until these prices are brought into balance with the prices of other commodities.

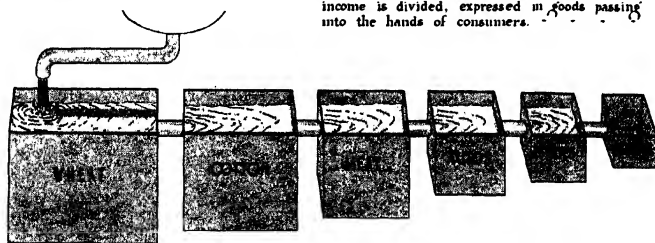
The flow through all of the valves determines the goods that are passing out through the pipe for consumption.

The series of square tanks—wheat, cotton, meat, shoes, automobiles and houses—at the bottom of Figure 28 emphasizes an economic fundamental or axiom—that the only goods available for consumption are the

PRICE EQUILIBRIUM THE DISTRIBUTION SCHEME



Goods flowing to consumers



The square tanks illustrate how the national income is divided, expressed in goods passing into the hands of consumers.

goods that are produced and made available for the market through price interchange. *The whole key to the stimulation of the distribution scheme, for its effect on standards of living, production, employment, earning power and purchasing power, lies in establishing the price equilibrium that effects the maximum interchange of goods.* All efforts to improve the functions of distribution should be aimed at establishing this proper equilibrium of prices.

The false presumption, general at the present time the world over, is that high prices, which ordinarily are a reflection of a shortage of goods, are a prerequisite of good standards of living and good business. This is absolutely an inverted conception. Low prices and plenty really improve the standards of living. Obviously the general group is much more comfortable and better off with plenty than with shortage. Nothing should be more evident than this, but, strangely enough, nothing in the whole sphere of economics is so frequently lost sight of and forgotten.

The highest standards of living, and the maximum movement of trade and industry, are attainable only through low real prices, in balance.

SUMMARY

So-called "over-production" is caused by lack of price equilibrium in the distribution scheme, by lack of the balance in the delivered prices of commodities and goods that is necessary to facilitate the interchange of these products.

High prices, particularly if they are out of balance, tend to destroy the interchange of goods, and cause a "starved" flow of goods to consumers. Such prices destroy purchasing power, dry up demand, create unemployment, and lower the standard of living.

The highest standards of living are attainable only through low real prices, in balance. Such prices stimulate demand, create purchasing power, increase employment, and create a maximum of national income as expressed in the free flow of goods to consumers.

CHAPTER XV

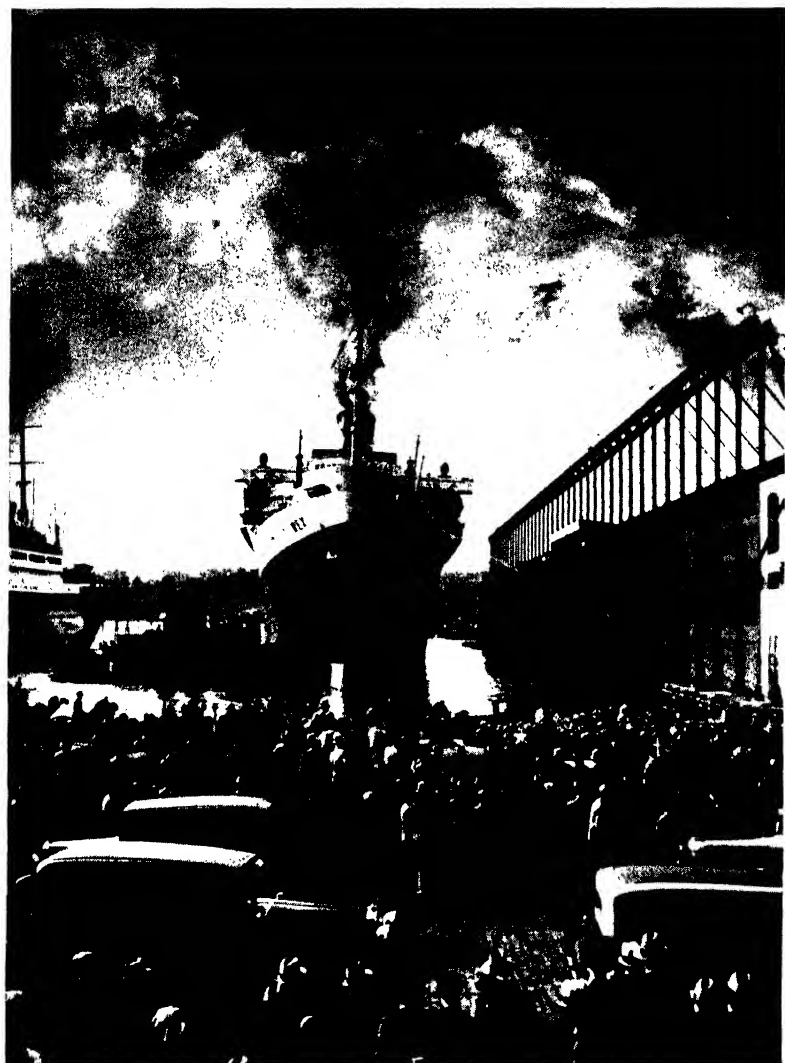
FOREIGN TRADE

OUR discussion of foreign trade will concern itself principally with the effect of tariffs on American domestic price levels.

The word "tariff", of course, is full of dynamite for any group of Americans. One can break up a friendly business or economic discussion at any time by tossing the word on the table. No American with pride in any of his convictions could possibly consider the tariff from an objective, judicial point of view. One is either for the tariff or against it—and this in turn usually depends on whether one's father was a Republican or a Democrat.

Times have changed, however, since our fathers fought their battles over the tariff, and it is quite probable that if they were in the saddle of business and political control today—economic realists that they were—our policies would be more quickly re-formed to suit our altered world.

The habit of letting ourselves be converted into Buddhists or Hindus by political slogans is tragic in its consequences to American business and standards of living. It is to be hoped, therefore, that we shall soon be able to throw off the shackles of inherited prejudice and super-



stitution, and confront courageously, from the standpoint of pure reason and evidence, the economic effects of present American tariff policies.

America finds herself today with large surpluses available in the productive capacities of her mines, mills, factories, farms and plantations.

These surplus capacities must be employed before we can again hope for a fair return on the capital invested in them and for high real wages to the employees.

America's foreign trade, during the year 1928, provided support for 2,400,000 families, and an outlet for a large part of our total productive capacities, including a heavy percentage of our agricultural and mining output.

The world abroad has a wide variety of desirable goods and materials to offer us in exchange for our products, and these goods would appreciably raise our standards of living.

The United States cannot isolate itself from the rest of the world, because:

- A. Although we export on the average only 10% of our production, the percentage for many commodities ranges far higher—50% for cotton, 37% for copper, 41% for tobacco, 36% for kerosene, 18% for wheat, and so on. Hence it is imperative that we find markets abroad, or undergo domestic readjustments on a serious scale.
- B. We are dependent upon the rest of the world for many indispensable commodities; rubber, silk, coffee, sugar, tea, and so on, which we either do not produce at all, or produce in quantities insufficient for our needs. We also

rely upon other countries for many finished articles which contribute substantially to our comfort and advancement.

- C. We have over fifteen billion dollars of foreign investments, held by thousands of American investors, including banks, insurance companies, and universities. In addition, foreign governments owe our government eleven billion dollars in war debts.

It is apparent from these facts that we cannot isolate ourselves from the rest of the world. We are definitely involved in world affairs, as a consequence of our participation in the world war and our subsequent projection of credit balances abroad to the extent of twenty-six billion dollars. It follows that America's interests demand the development of a foreign policy—governmental, financial and commercial—that will prevent further huge losses to American investors and taxpayers and that will foster our foreign trade to the benefit of American capital and labor.

DOMESTIC GOLD PRICES OF COMMODITIES ARE WORLD PRICES

One of the common fallacies in our economic thinking is that in some way or another we can raise price levels in this country without paying any attention to what happens abroad. Here again we are brought face to face with the realities of the law of supply and demand. We are confronted by the condition that American domestic commodity prices, *gold prices*, will continually gravitate toward world prices for such commodities.

World prices of commodities are always gold prices, based on the law of supply and demand for the commodity and for gold. These world prices are constantly influenced by conditions prevailing in the world market. If a country produces so much of a commodity that there is continually a surplus available for export, then the domestic or internal gold price of this commodity will continually gravitate to the world gold price. We have illustrated this truth in Figure 29, and have chosen *wheat* for our example.

Four of the usual and familiar tanks for illustrating the law of supply and demand have been set up for the various markets. In the case of countries producing an exportable surplus, such as the United States, Canada or the Argentine, we have introduced an additional jar. This jar surrounds the other and serves the purpose of conserving the overflow from the inner jar.

The scheme in the lower left hand corner of the figure illustrates what happens in countries that do not raise sufficient wheat for domestic consumption. The supply of wheat for consumption must come from two sources, from the farms of that particular country and from imports. The imports of wheat must come from world stocks. This is shown by a pipe from the world stock jar. The flow in this pipe can be controlled by means of duties, restrictions or embargoes, as the importing country may desire. This means that the stock of wheat in the jar (lower left hand corner of the figure) can be controlled, and the weight of it can be so governed that it will not become heavy enough to depress the block, and accordingly depress the price of wheat.

Of course, this is a bit trying on the French or the Italian or the German family, particularly the industrial family, that is on a very low income and may have to short ration the children on the number of slices of bread they can have for supper. But the prices can be reasonably controlled where there is a natural shortage of wheat arising out of the limited production of the domestic farms.

The scheme for the United States (in the upper left hand corner of Figure 29) is tied into the world stock scheme by a slide-valve C, which has been explained and used in previous figures. When the price of wheat in the United States exceeds the world price, even slightly, the tendency is to choke off the flow into the world stock. In the physical analogy, the slide-valve C, controlling the flow, is closing. As this valve C closes and shuts off the flow, the surplus stock in B increases, the weight increases, the block is depressed in the liquid, and the price in the United States falls. If, meantime, prices of world stocks are stable, the slide-valve C opens and re-establishes the flow of wheat from the United States to the world stock.

Thus it is the rise and fall of the block in the World Stock tank, and the rise and fall of the block in the United States tank, that govern the opening of the valve C, and, accordingly, the flow from the United States to the world stock.

Obviously the maximum opening of the slide valve C (the maximum flow of American wheat to the world

PRICE INFLUENCE OF THE WORLD MARKET

IN ANY COUNTRY PRODUCING A SURPLUS OF A COMMODITY FREE FROM MONOPOLY LIKE WHEAT, THE PRICE OF THAT COMMODITY CAN ONLY BE THE WORLD PRICE

PRICE IN OARS

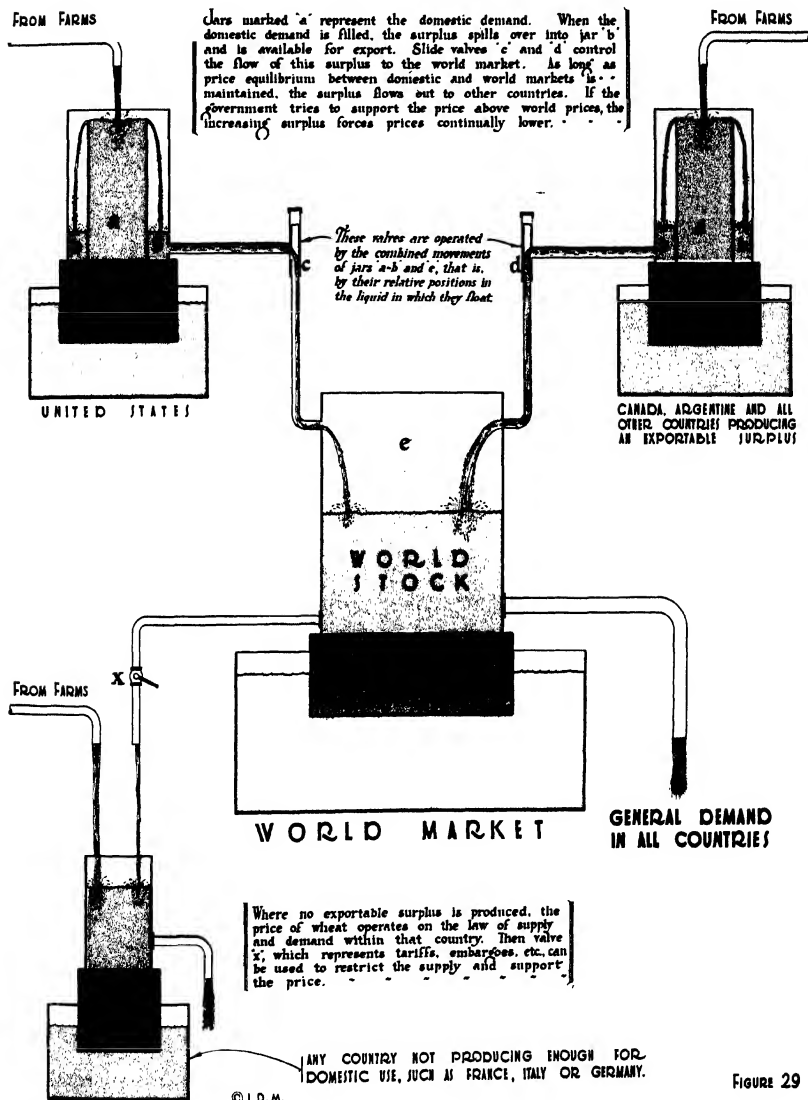


Figure 29

PRICE INFLUENCE of the WORLD MARKET

Illustration of the Previous Figure

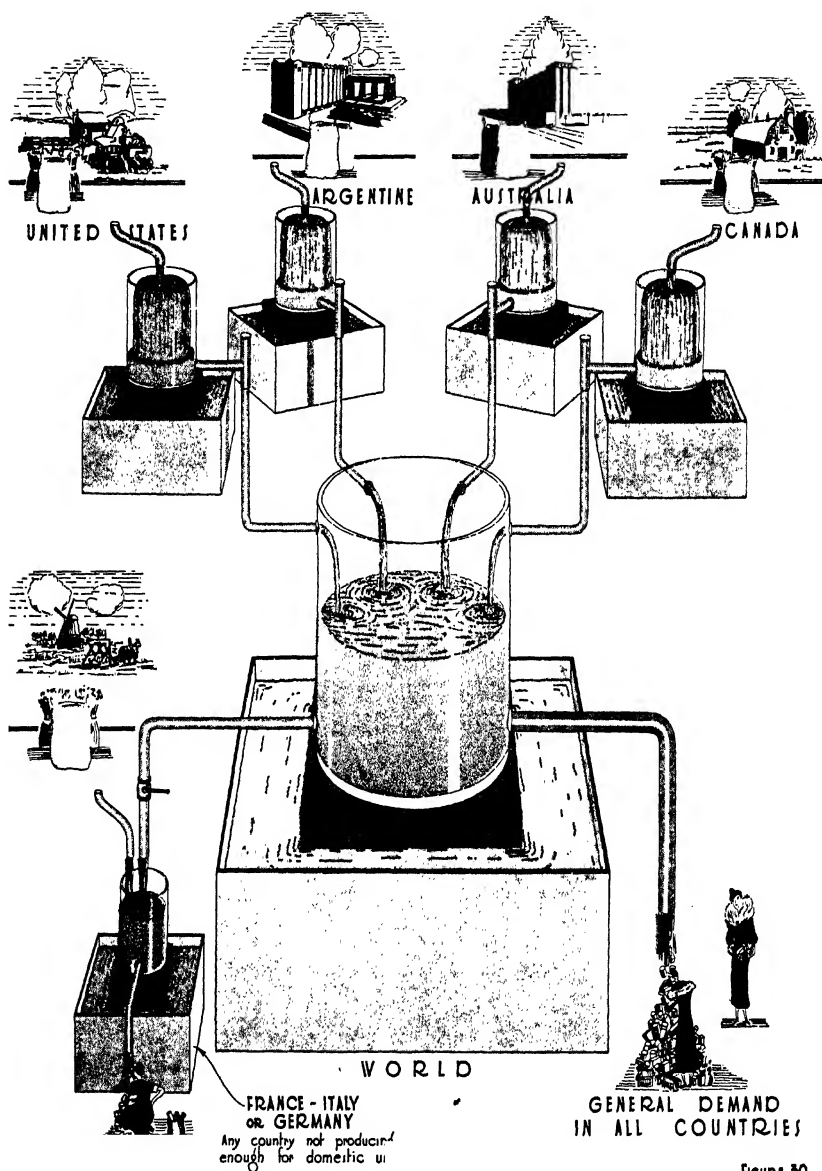


FIGURE 30

market), is effected by keeping the prices at which this wheat is offered well in harmony with world stock price movements.

In the upper right hand corner of Figure 29 there is shown a scheme representing what goes on in other countries having an exportable surplus, like Canada, the Argentine, and Australia. The flow of wheat from these countries to the world stock is affected by the price relations in exactly the same manner as in the United States.

In the case of Canada, for example, it is important to observe that the prices of Canadian wheat going to the world market have an important influence on domestic prices in the United States. We have illustrated how these various prices, United States prices, Canadian prices, and World prices, are inter-related by tying together the elements of the physical analogy in the manner shown. The rise and fall of the blocks in the three tanks (center, upper left, and upper right) are proportional to the rise and fall of prices in the respective markets. The two slide-valves shown at C and D are simply a means of making the flows from the two upper jars depend on the relative heights of the three price blocks.

As the world price of wheat rises, it affects the flow through the slide-valves controlling the flow of surplus wheat from all countries producing an exportable surplus. The block in the World Market scheme rises, the slide-valves open and allow a heavier flow. This heavier flow reduces the surplus stock in the jars B. In turn, the

blocks for the United States and the countries having a surplus for export rise with corresponding price increases.

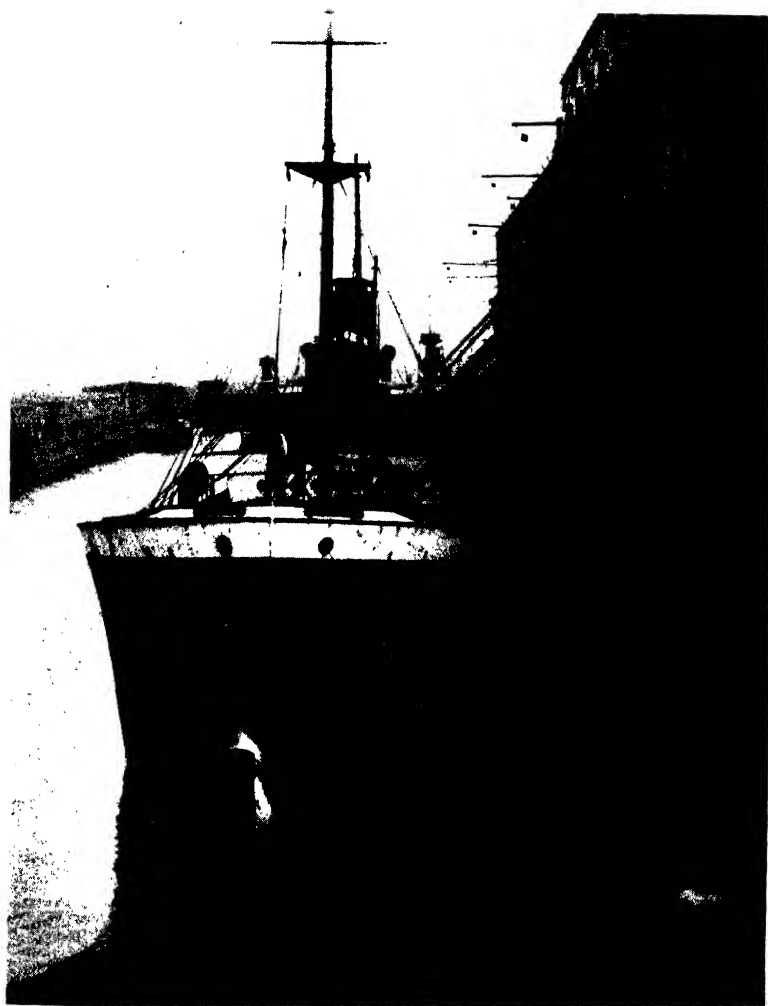
It is plainly to be seen that this circle of events has the general effect of balancing prices everywhere and establishing the world price as the *governing* price.

If, by means of artificial pegging or control, we hold our prices above the world prices, we shall shut off the flow automatically at the point C. As world prices become low and prices are higher in the United States, the tendency is to close the valve at C and let no wheat flow out. This, of course, increases the stock in the tank and depresses the real price in our own country. Whenever we "peg" this price, in one way or another, we always have to undertake the liquidation of the "pegging" at some later time.

We tried pegging the price by "keeping the wheat off the market" two or three years ago. Now we are fumbling with the problem in another way, under some forlorn, futile, hopeless, costly hallucination that we can avoid the inevitability of facing world prices. Our experience during recent years certainly should have taught us that there is a severe penalty to be paid in our standards of living and in our general business conditions for flaunting the laws of supply and demand. If we continue to defy these laws we shall continue to pay the penalty.

IMPORTS AND EXPORTS

Figure 31 sets forth the familiar supply and demand



Our surplus capacities demand exports.

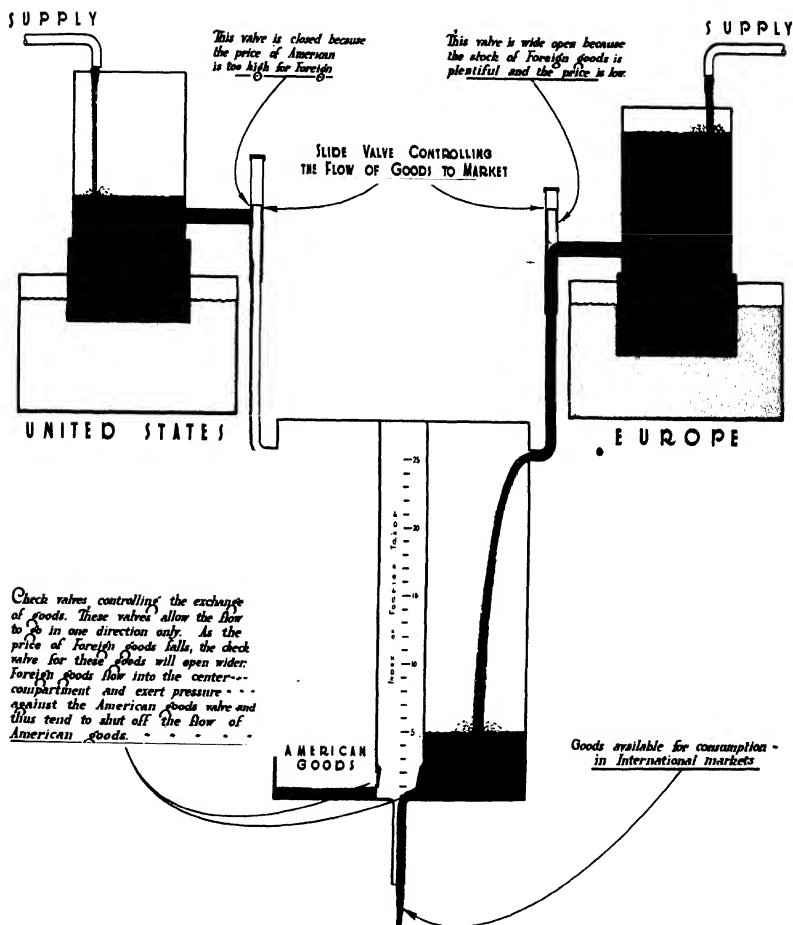
tanks, and the price equilibrium valves (explained fully in Chapter XIV), as a means of helping us to reason out what happens in the exchange of goods in international trade. In this figure we have shown foreign goods with a price advantage over American goods to the point where the foreign goods slide-valve stands wide open and the American goods valve is closed. In other words, very few American goods are flowing to the common market, whereas foreign goods are flowing freely.

Figure 32 shows what has been going on as a result of American political restrictions, tariffs and embargoes, that have prevented the entrance of European goods into the American market. The answer, of course, is that fewer European goods are available for consumption at the final discharge pipe.

The prices of European goods would create a heavy American demand, but the flow is limited by political restrictions. In our example, the prices of American goods also create a heavy foreign demand, and the flow as shown is not retarded and diminished as yet by political restrictions.

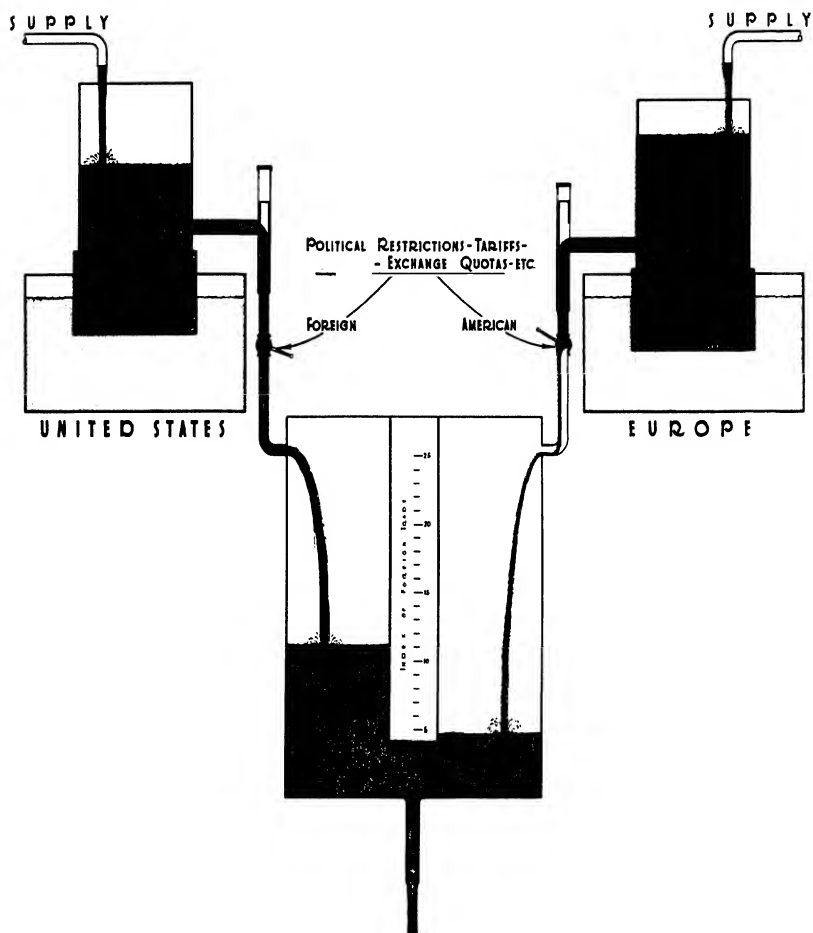
Both sides are doing badly in Figure 33, because goods have been choked off on either side by restrictive policies and very few goods are flowing through to the market. It is important here to note again that we suffer most seriously from our own political restrictions that

PRICES OUT OF BALANCE CONSUMER GOODS



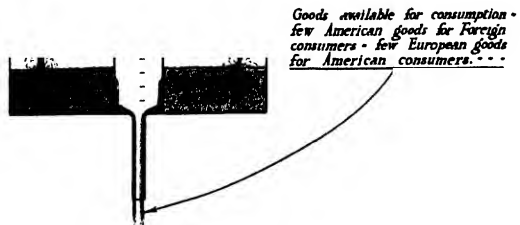
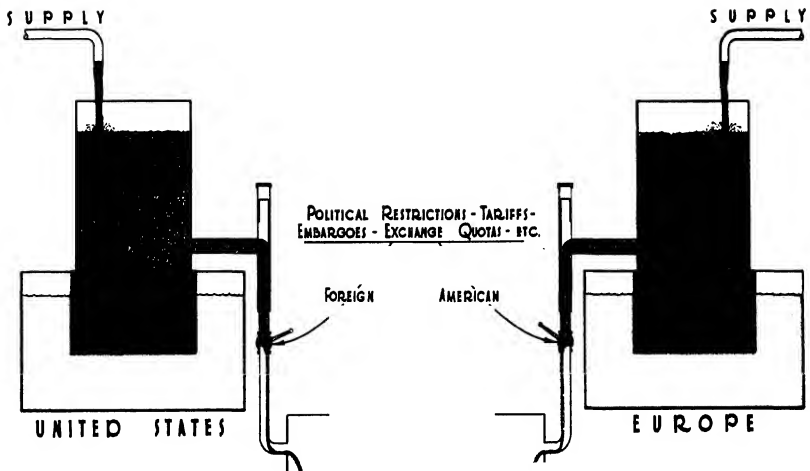
European goods, being low-priced, are ing freely to international markets. American goods are too high-priced to enter these markets.

HIGH UNITED STATES TARIFFS EXCHANGE OF GOODS RESTRICTED



[Goods available for consumption - principally
American goods for European consumers.]

EXTREME HIGH TARIFF POLICY



Restrictions of trade by tariffs raise the price to the consumer of imported articles, and of all domestic articles thus protected. Also, by decreasing exports they tend to depress the price of exportable goods. These prices cannot recover until trade is allowed to flow freely, thus restoring normal demand. . . .

prevent foreign goods from flowing reasonably into our market. The only justification for our insisting on exporting goods is that we must use goods that flow out as a means of paying for goods that come in. If we can think of any clever way to let goods come into this country in great volume without paying for them, we might better do it. *It is the goods that go out, and not the goods that come in, that reduce our standards of living.* Goods coming in, goods available for consumption, are the goods that create purchasing capacity and improve our living standards.

Figure 34 illustrates the ideal interchange of goods, with American and European restrictions reduced to moderate limits. There are plenty of goods available for consumption. Here, again, we wish to emphasize the point that it is the goods that are available for American consumption that are important. As we can see from the discharge, it is very important for us to do anything we can to increase the available amount of consumer goods. Too many American families are very short of consumer goods.

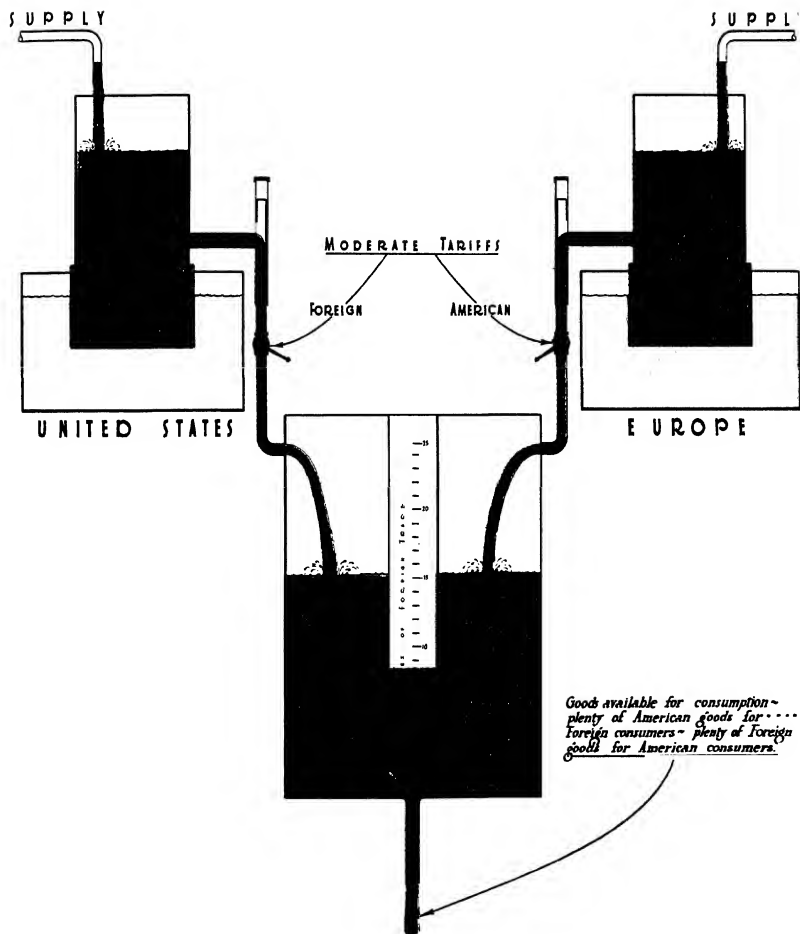
Silver-tongued orators have told us continually, these many years, that these imported consumer goods would cause unemployment and destroy American workmen's jobs, but the truth is that they would not only contribute to our standards of living but would also create employment, because there would then be more income

available for the purchase of other commodities which we can produce more cheaply and efficiently in this country.

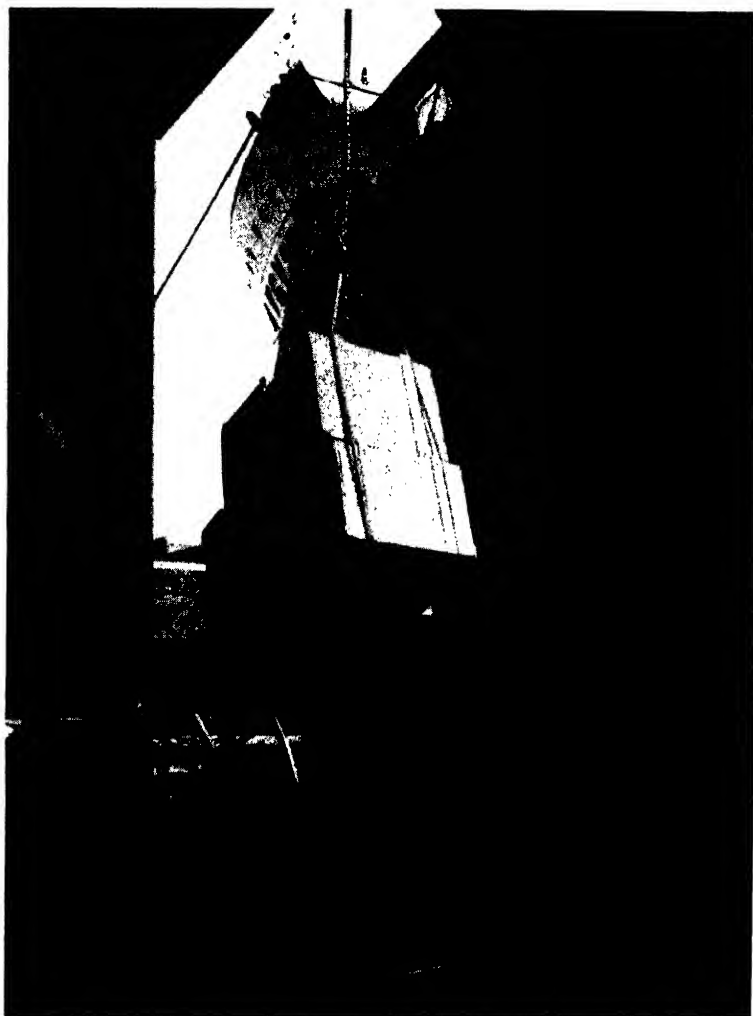
Meantime, of course, European political restrictions, tariffs, embargoes and exchange quotas, shut off the flow of American goods. Of course, fundamentally, Europe suffers from these policies even worse than we do. But it will take all of the various government officials throughout the world a long time to catch up with this idea, judging by the growth of that type of loose economic thinking now incorrectly known as "nationalism". In opposition to this self-destructive nationalism, we seek to explore the nature of *true* nationalism, that enlightened self-interest which will confer the greatest benefits on our own domestic economy.

The ideal plan, of course, so far as fundamental economics is concerned, is to let goods flow in here very freely. This, of course, is hardly a glowing idea politically. We have become so saturated with the notion that it is better to ship goods abroad than to take any in that we realize that there is a certain amount of shock in suggesting the idea of doing the correct thing. However, we are concerned with confronting the bald economic truths in this presentation, and not with political coloration. We have been wet-nursed on the idea for years that there is something quite clever economically in shipping goods abroad continually without getting paid for them. As a matter of fact, the really clever thing to do would be to take a lot of goods in without paying for them, *if we could*. This is what we have continually invited Europe to do with us.

A WELL BALANCED AND EASY INTERCHANGE OF GOODS



[An easy interchange of goods for the benefit
of the consumer.]



Our standards of living demand imports.

A critical examination of the analogies—if we can forget prejudice or passion about tariffs and so much of the political credo that we have been taught for generations—reveals that we could only benefit in our standards of living, in our reduction of taxes, and in making business move forward with more momentum, if we actually took in considerable quantities of imported goods in exchange for our exports.

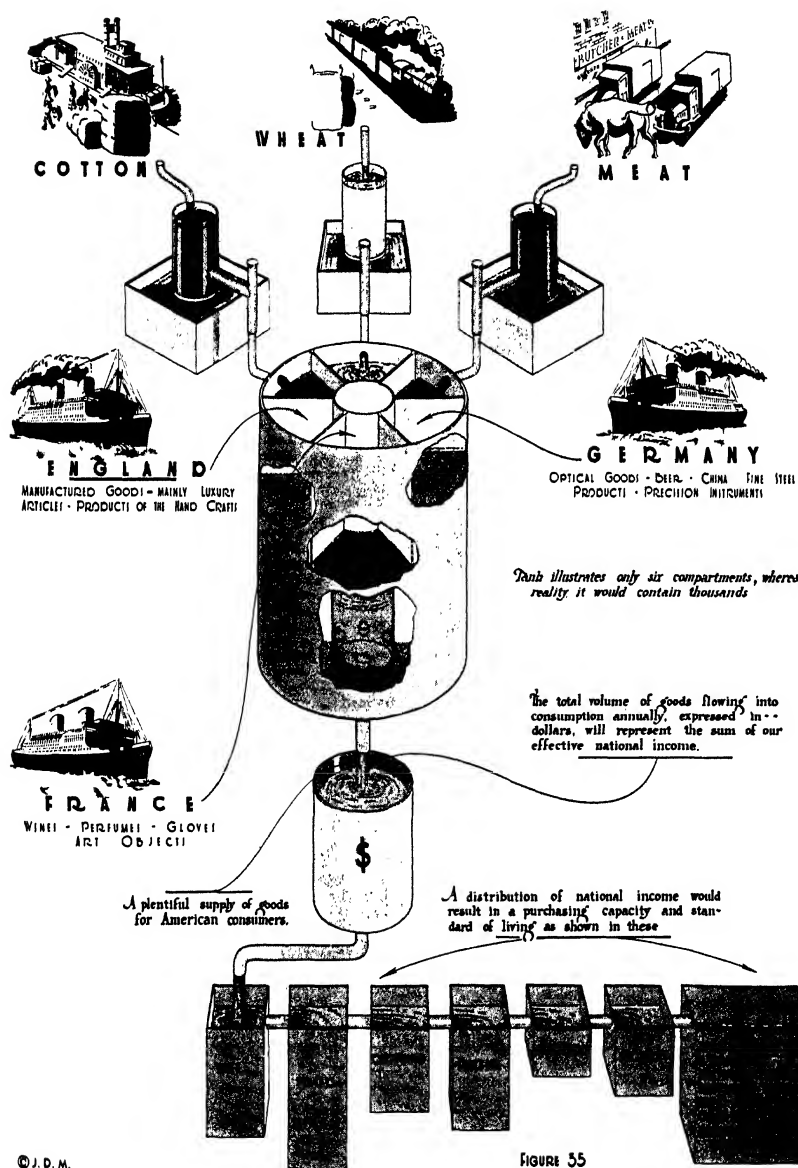
THE EFFECT OF FOREIGN TRADE ON THE STANDARDS OF LIVING

In Figure 35 we have used the same type of physical analogy that we presented in our discussion of the price equilibrium in the distribution scheme, Chapter XIV. Perhaps it would be well for the reader to take another look at the analogy as we set it forth in Figure 28, to refresh his memory on this process. We presented this analogy as a means of showing how a maximum national income is developed, as interpreted through goods available for consumption.

In Figure 35 we have explored the general economics of imports in terms of goods available for American consumption. In the main tank we have included only a few commodities, because it is much easier to demonstrate the principles involved by limiting the number chosen for the illustration. For this reason we have shown only six compartments, whereas in reality they would be almost innumerable.

We have chosen for illustration: American cotton, wheat and meat; English manufactured goods, par-

THE EFFECT OF FOREIGN TRADE ON THE AMERICAN STANDARD OF LIVING



ticularly luxury goods and products of the handicrafts; French wines, perfumes, gloves, laces and art objects; German optical goods, precision instruments, beer, china and fine steel products.

For purposes of illustration, and to keep the analogy from becoming too complicated, we have assumed that there is a free and generous flow of all of these various commodities arising out of a balanced situation. Accordingly, we shall get a free and generous discharge of these commodities through the main tank discharge pipe—commodities that will be available for American consumption. It follows that a balance of this kind, that could arise from our administrative policies, would be very effective in raising our national income, as expressed in goods available for consumption, and, accordingly, in raising our American standards of living.

Let us now consider the series of receiving tanks that we have set forth at the bottom of Figure 35. Here we have tried to represent pictorially what happens to the national income. First, a considerable proportion of this income goes to support the cost of government—national, state and municipal—in the form of taxes. Then, of course, we must have food, clothing and shelter. The doctor and other important professional services have to be paid for. We must provide out of the national income for security, insurance and savings.

After all these necessities are provided for, we come to the additional comforts of life that ordinarily are used as an expression of increased purchasing capacity. *It is the stimulation of demand for these important comforts and small luxuries that is at the crux of the*



Goods that flow out—



Help to pay for goods that come in.

whole problem of making additional employment effective in raising standards of living.

Obviously, by rescuing some of the national income from being absorbed in the first six tanks we have shown in the series, we shall have some of it available for the comforts and the luxuries. As a matter of fact, the employment that we can generate in the economic scheme depends principally on the excess available out of the national income that we can release for spending on the items represented in the last tank.

The healthiest state of internal economy, and the highest possible standards of living within the United States, will result from the widest employment of our production facilities, and the exchange of surpluses thus created for the surpluses of other nations, which thereby increase the sum total of our internal real wealth.

SUMMARY

The presumption that America can effectually practice economic isolation is untenable, because domestic commodity prices will continually gravitate toward world prices for such commodities.

The prices for consumer goods will gravitate toward the level that facilitates the exchange of consumer goods for basic commodities.

Domestic prices on American consumer goods will continually tend toward the level of commodity prices, and accordingly toward world prices.

A generous flow of two-way foreign trade (exports and imports) not only increases employment and purchasing capacity, but remarkably improves the economic well being of the country. The national income of the country is increased, particularly as expressed in terms of goods available for consumption.

CHAPTER XVI

PURCHASING CAPACITY

MANY of the economic discussions of the day might lead us to suppose that purchasing capacity is a product exclusively of a man's hourly wages. By increasing his hourly wages, we increase the workman's purchasing capacity—so we are told.

This, unfortunately, is only a very small part of the story.

Purchasing capacity depends, fundamentally, on several factors. The simplest statement or definition of the genesis of purchasing capacity is that it depends on the relation between a man's annual income and the cost of things, on an annual basis—things that he must buy in order to live and supply the ordinary comforts for his family. His money wages, particularly if these are expressed in the form of how much money he gets per hour or per day, are only a minor part of his total problem.

Purchasing capacity has been identified and dramatized as a creation of hourly wage rates, rather than a joint product of the worker's annual earnings and the cost of living.

Purchasing capacity is directly related to production, and rises and falls with it. An increase in produc-

tion increases purchasing capacity, and curtailed or decreased production lowers purchasing capacity. This capacity depends fundamentally on production and the easy interchange of products.

Employer and worker meet principally on the common ground of compensation; on the just division of the profits of the industrial effort. Obviously, with all the attention of industry focused sharply on hourly wage rates, the various implications of the compensation fail to include the element of continuity in the relation between the employer and the worker.

Industry, in its endeavor to solve its own organization problem, must free itself from the shackles imposed by the over-emphasis of hourly wage rates, and develop a broader and sounder philosophy of compensation.

WHAT A MAN GETS, ANNUALLY,—AND WHAT HE MUST SPEND

We have developed a series of illustrations in which purchasing capacity is expressed in terms of the relation between what a man gets annually, in money, and what he has to pay for the things he needs.

Any compensation, of course, is a part of the total national income. Figure 36 illustrates the flow of national income, and shows how various earning classes compare in purchasing capacity, according to their rates of compensation. The rates of income are annual

DISTRIBUTION OF THE NATIONAL INCOME

AMOUNTS REFLECT ANNUAL RATES
TAXES INCLUDE INVISIBLE OR INDIRECT TAXES

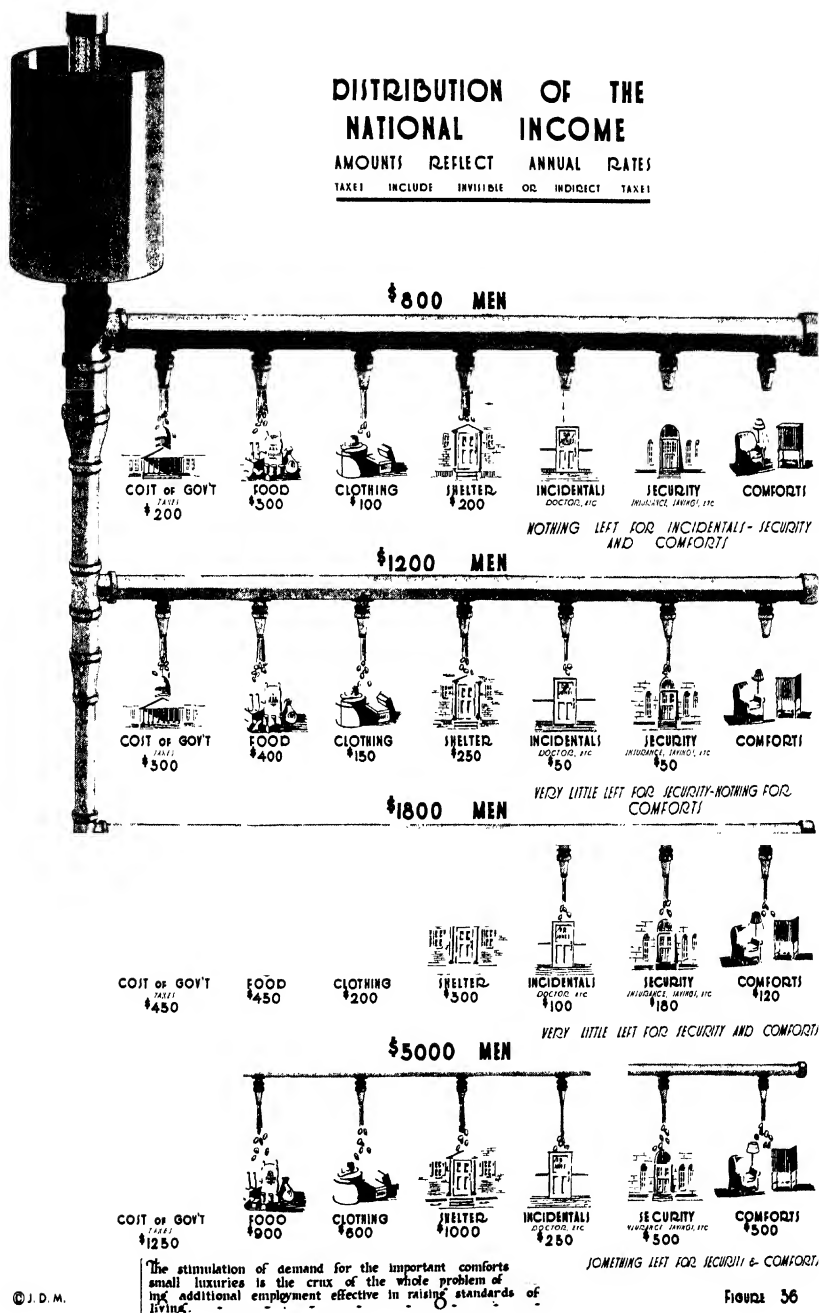


FIGURE 36

rates. The total amount of money received by the group with annual earnings of \$800 is very large when compared with the total of all \$5,000 annual incomes; as a matter of fact a large percentage of the national income is made up of these millions of \$800-a-year men and those in the income classifications ranging from \$800 to \$1,200.

Figure 36 presents a general picture which illustrates the average expenditures in each of four income classes up to \$5,000 a year. In each income class "header" we have shown nozzles that represent annual rates of expenditure for various items that go to make up the average family budget. Cost of Government, Food, Clothing and Shelter are necessary expenses for everyone. We have broken down the incomes in the four classes shown, so that these absolutely essential items are about in the proportions that will be found in the family budget. The first item—Cost of Government—is one that nobody can escape. It represents the aggregate of the visible and invisible or the direct and indirect taxes that must be paid.

It will be noted that the \$800-a-year man, however he may divide his expenditures, is able to buy only the bare necessities of life. He has nothing left for incidentals or security, let alone comforts and small luxuries. In the case of the \$1,200-a-year man, only a small amount is left for incidentals, with no margin for security and the comforts of life. The \$1,800-a-year man manages to have a little left for these things. Not until we come to the \$5,000-a-year man, however, do we find enough purchasing capacity to procure security and

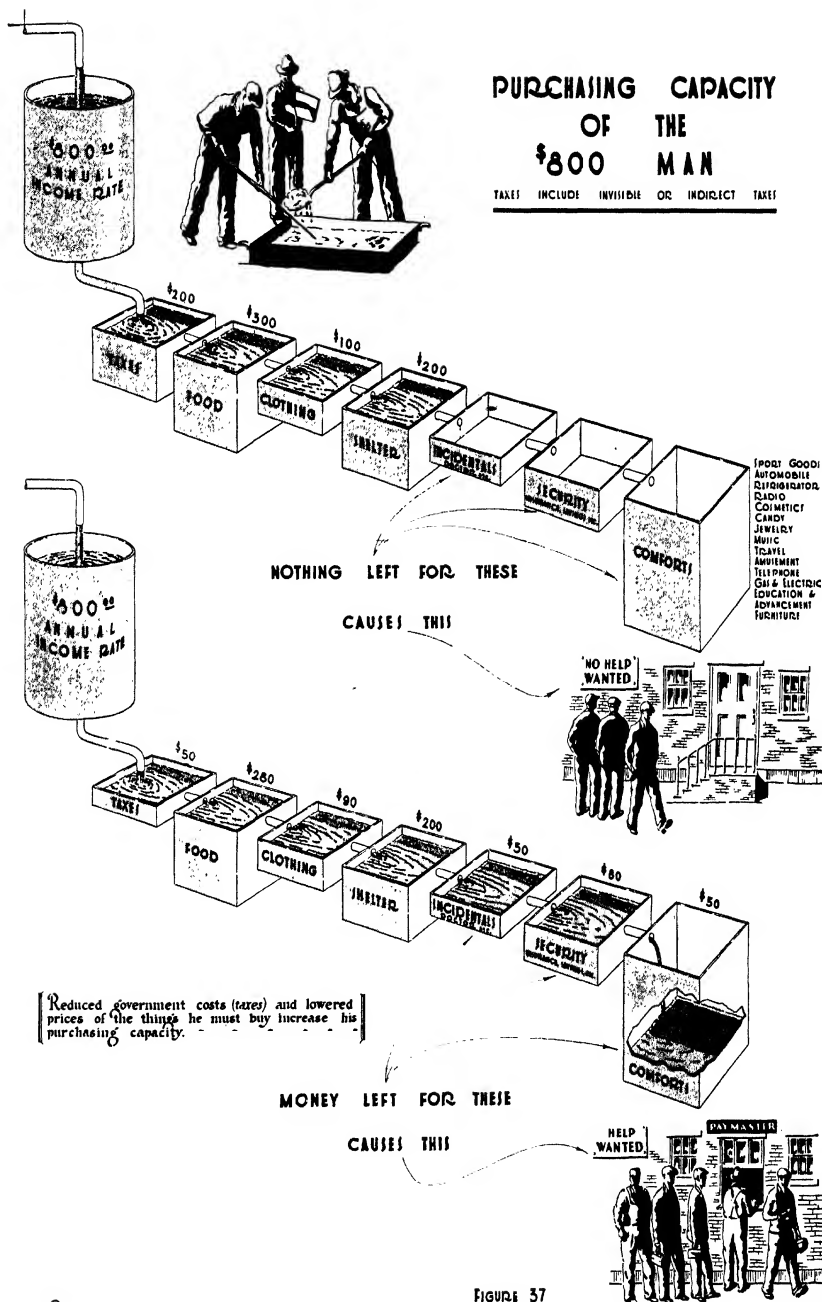
the things that make for comfort and a reasonably high standard of living.

This broad picture of what happens to the incomes of four income classes establishes the base for a more extended consideration of two of these classes, and also for appraising the several panaceas that have been proposed for the solution of our economic ills.

The \$800-a-year laborer, because there are so many of his kind, is an important man in our economic picture. In Figure 37 his income has been split up into the necessities which he is obliged to purchase with his limited means. It will be observed that nothing is left for the tanks beyond the shelter tank. No margin remains for incidentals—the doctor, the dentist, or recreation; nothing for security—life or accident insurance, or savings. And of course nothing whatsoever remains for the purchase of comforts; nothing in the way of luxuries for his family—like furniture, entertainment, amusement, telephone, radios and motor cars.

This restriction of his purchasing power has a tremendous aggregate effect. Because he is unable to buy any of these comforts, he is unable to give any support to the industries that are dependent on demand for these things. This inability to buy obviously diminishes the opportunities for employment among the workers in the “comfort” industries.

This is no overdrawn picture. If we talk with any laborer whose wages are \$800 per year, or visit his



home, we shall find our illustration simply an expression of the economic problem of his family.

It is evident how this lack of purchasing power must limit the purchasing capacity of other people. Because of this lack, and the lack of millions like him, there is not the employment in manufacturing additional consumer goods that there would be if we could bring this class of \$800-per-year-income people into the market for more of the "comfort" and "luxury" products.

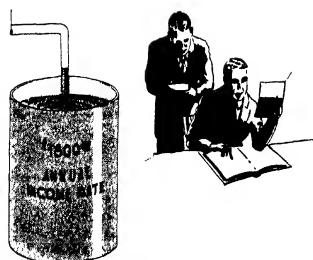
This same \$800-per-year laborer could be helped, and in turn could help others, if his purchasing capacity could be increased. The usual assumption is that this can result only from an increase in his money wage rates. There are two other ways, however, that are equally potent, namely a lowering of the cost of government, thus reducing his direct and indirect taxes, and a decrease in real prices. Then, even with no increase in annual income, there would remain something for purchasing the things in the tank representing comfort. If these millions of \$800-a-year laborers could have even a little money left, after providing for all the necessities, for the purchase of a few of the comforts, there would be more employment and a general rise in living standards. Thus we perceive that the stimulation of demand for the important comforts and small luxuries is the crux of the whole problem of making additional employment effective in raising the general standards of living.

This truth is clearly illustrated in Figure 37. By reducing the total cost of government, food, clothing

and shelter, even the \$800-a-year-income man would have a little something left over for some of the things that we surely will agree that he ought to have—incidentals, security and the items listed in the last tank. And through these purchases he would be able to make his own contribution, however modest, to the welfare of others.

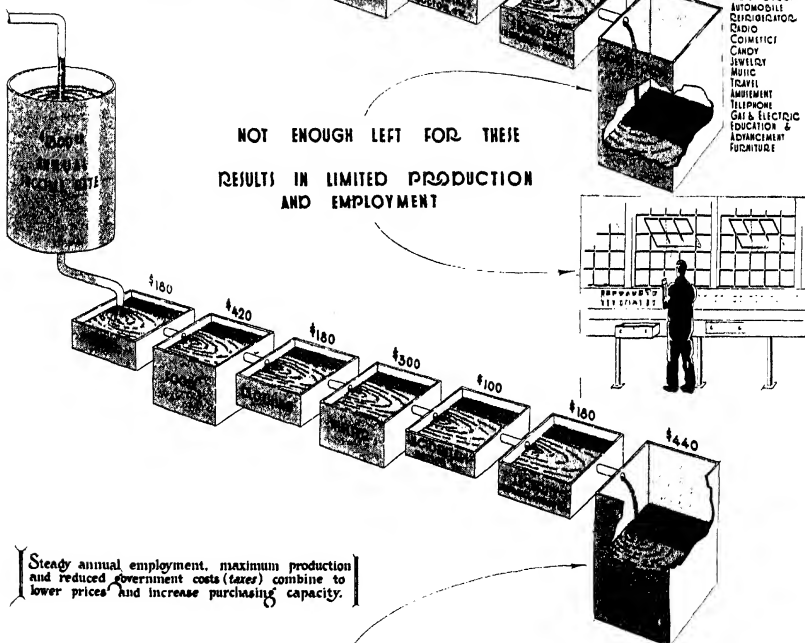
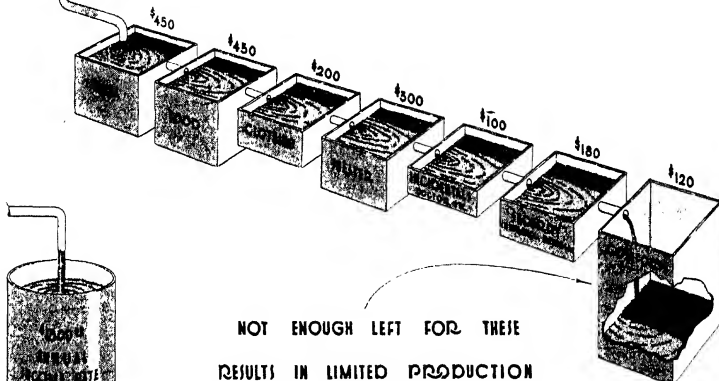
The same principles hold when we examine what happens to the income of the \$1,800-a-year man in Figure 38. Here we see, clearly illustrated, the contrast between this man and his \$800-a-year brother in his capacity to buy some of the things represented in the final tank. The effect of lowered prices, through maximum production and reduced government costs, finds reflection in his ability to acquire comforts and small luxuries.

Now suppose we increase this man's wages 10% and give him \$1,980 per year. If we do this through an increase of 10% in his output, we shall get an effective contribution to industrial growth. For instance, if he has been getting \$1,800 per year in wages, but has been working only part time, and we can put him on full time because we have the production, and increase his employed time 10%, and thus bring his income up to \$1,980, we shall make a real addition to purchasing power. In that case more goods will be produced with no increase in production cost, and these goods will be available for distribution, to himself and to countless others like him, at prices that will increase his own

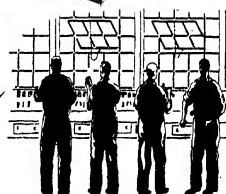


PURCHASING CAPACITY OF THE \$1800 MAN

TAXES INCLUDE INVISIBLE OR INDIRECT TAXES



CONSIDERABLE LEFT FOR THESE
RESULTS IN INCREASED PRODUCTION
AND EMPLOYMENT



purchasing capacity or standard of living. On the other hand, if we raise his wages on a basis that is not economic, and thus increase the cost of the things he produces, we shall only reduce the purchasing capacity, not only of himself but of everybody else, both within and without his own income class.

The operation of the forces here involved has been shown in our study of the law of supply and demand, and in the series of analogies in which we discussed the equilibrium of prices and their effect on the processes of production and distribution. Reduced purchasing power in this case arises out of the fact that the items on which our \$1,980-a-year man's income is to be spent will rise in cost and price, and accordingly there will be less surplus available with which to buy necessities and comforts.

Particularly we must be skeptical of the situations where the government undertakes to underwrite increases in wages or other forms of earnings. It is obvious that whenever government does this it must supply the margin of funds between the economic base and whatever is projected on a plane that is uneconomic. This can result only in higher taxes. These taxes must appear in the tank where the government makes its first demand on our incomes, and correspondingly reduces the purchasing capacity available for the other things in the series.

This is the same old story, of course. The government makes no real contribution to production or distribution; it actually produces nothing and distributes nothing. Whenever it projects itself into the economic pic-

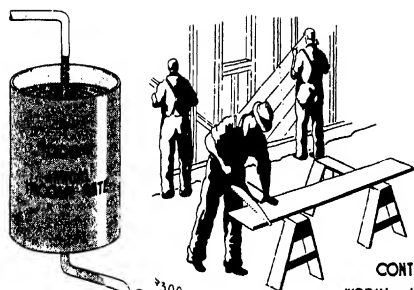
ture, it simply supplies administration or control. If we could assume this control to be highly intelligent it might be worth paying for, but governments, generally, are the world's worst economists and make the most tragic economic blunders. When such mistakes are made, they have only one way to pay for them; they must collect the consequences from us. Thus their blunders always result in higher taxes, which are finally effective in reducing our purchasing capacity.

“WORK LESS AND HAVE MORE”

The figures that follow illustrate certain ideas and projects now current and popular for relieving the unemployment situation, that are in direct contradiction of fundamental economic law. Prominent among these are the “share-the-work” movement and the “six-hour day—thirty-hour week”. After paying our respects to these nostrums we shall proceed finally, in Figure 41, to “The Economic Solution”.

Although advanced at first only as an emergency measure, the mistaken idea has become current that spreading work by sharing work is desirable as a permanent solution of our unemployment problem, a view which many of the original sponsors of this movement did not advocate. Figure 39 shows just how “work sharing” tends to lower living standards and actually makes for less employment.

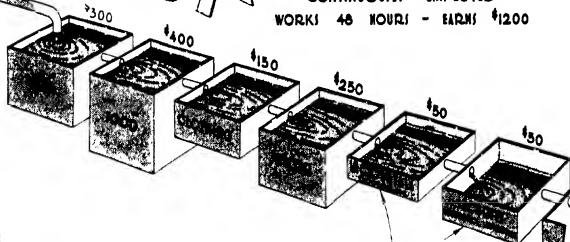
Such “work sharing” is a direct invitation to a lower standard of living. It increases the cost of unit production and at the same time limits the worker's oppor-



SHARE THE WORK PROGRAM

TAXES INCLUDE INVISIBLE OR INDIRECT TAXES

CONTINUOUSLY EMPLOYED
WORKS 48 HOURS - EARN \$1200



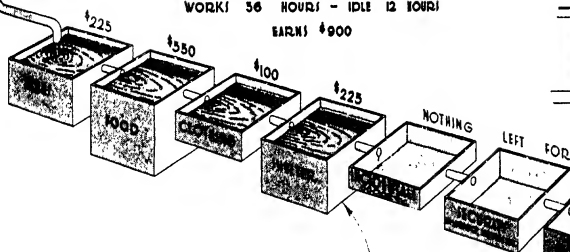
PURCHASING CAPACITY
SUFFICIENT FOR THESE

(POUR GOODS)
AUTOMOBILE
REFRIGERATOR
RADIO
COSMETICS
CANDY
JEWELRY
MOVIE
TRAVEL
AMUSEMENT
TELEPHONE
OIL & ELECTRIC
EDUCATION &
ADVANCEMENT
FURNITURE



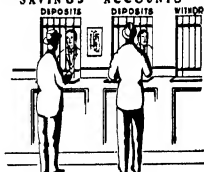
SHARES HIS EMPLOYMENT

WORKS 36 HOURS - IDLE 12 HOURS
EARN \$900



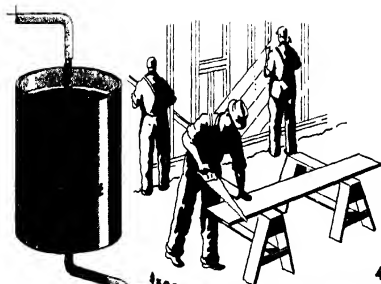
STANDARD OF LIVING IS LOWERED
AND HIS PURCHASING CAPACITY IS NOW
RESTRICTED TO THIS POINT

SAVINGS ACCOUNTS



ACCOUNTS





The THIRTY HOUR WEEK

TAXES INCLUDE INVISIBLE OR INDIRECT TAXE

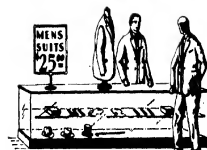
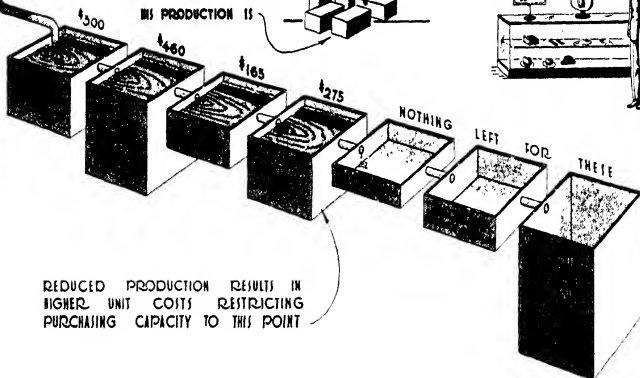
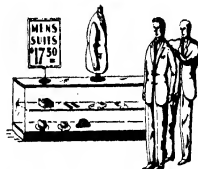
48 HOUR WEEK
WORKS 8 HOURS - 6 DAYS
HIS PRODUCTION IS



PURCHASING CAPACITY
SUFFICIENT TO INCLUDE THESE

SPORT GOODS
AUTOMOBILE
DISPOSABLES
CLOTH
COSMETICS
CANDY
JEWELRY
BATHIC
TRAVEL
AMUSEMENT
TELEPHONE
GAS & ELECTRIC
EDUCATION &
ADVERTISING
FURNITURE

30 HOUR WEEK
WORKS 6 HOURS - 5 DAYS
HIS PRODUCTION IS



tunity to produce and to earn. Thus it is doubly effective in reducing purchasing power.

One of the most alluring and plausible of the economic fallacies now currently projected is the six-hour day and the five-day week. This fallacy is analyzed in Figure 40.

It is argued that by such restriction of individual labor, more workmen can be absorbed into productive activity, while (during their new hours of leisure) they will have more time to consume and thus stimulate new production.

The paralyzing weakness of this view comes at the point of *price*. Short time, at maintained wages, must inevitably run up the costs of production, and result in price increases.

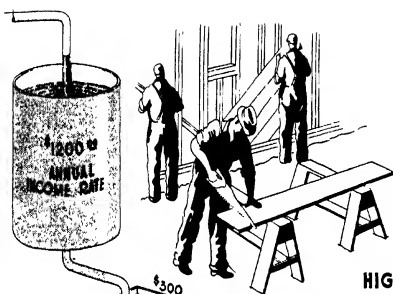
If we give the workman less work at the same pay, and reduce the individual production, we must inevitably increase the unit cost of the article produced. If we carry this restriction of hours throughout the entire economic system, we shall inevitably increase the production cost and hence the price of every item the worker must purchase. Thus we have done nothing but decrease his buying power.

Here again we have left the worker in the situation where he cannot buy what he produces—where his own reduced buying power restricts the employment stream, results in the continued unemployment of other men, and finally places his own job in jeopardy. As the prices rise of the products he is employed in making, the demand must inevitably fall off, and when this hap-

pens universally there is no safe and secure job for anybody.

The ideal situation is where the skilled workman is continuously employed every working day in the year, and has a maximum *real* income arising out of such steady work. The effect of this condition is shown in Figure 41. This workman can make a contribution to the general economic welfare and to his own employers in the way of reduced costs that make it possible to reduce the selling price of the product he is employed in making. The combination of these reduced prices on consumer goods and lower costs of government would spread employment remarkably, because surplus income would then become available for the purchase of other consumer goods. This is the natural and economic way to work the situation out, and it is the only way that will work out. When the problem is solved in this way, with the creation on the one hand of a surplus available for the purchase of more goods for the workman's family, and on the other the creation of more employment for the production of such goods, we have a much sounder and more attractive solution than any of those that attempt to defy economic laws.

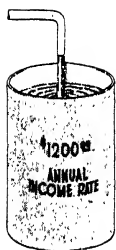
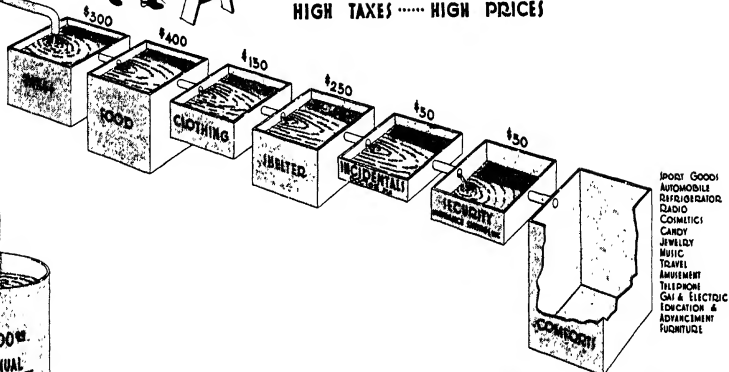
Unfortunately the whole subject of compensation in industry has been frozen into the narrow mold of hourly wage rates. Such rates for labor have been emphasized to the point where the other factors in the



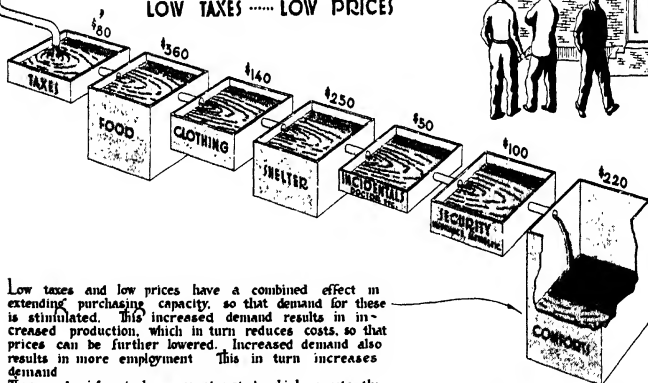
ECONOMIC SOLUTION

TAXES INCLUDE INVISIBLE OR INDIRECT TAXES

HIGH TAXES HIGH PRICES



LOW TAXES LOW PRICES



Low taxes and low prices have a combined effect in extending purchasing capacity, so that demand for these is stimulated. This increased demand results in increased production, which in turn reduces costs, so that prices can be further lowered. Increased demand also results in more employment. This in turn increases demand. Thus a benign circle is constructed which constantly leads to higher standards of living.



wage earner's economic problem, namely prices, security, and actual standards of living, have been badly neglected. Too many seem to lose sight of the fact that a man's family eats every day in the year, that the children's shoes wear out from month to month, and that the mortgage on the home is payable on an annual basis.

If we could talk more frequently with the housewife we would find that she is far less thrilled at the prospect of fancy short-time wages for her husband, than by the prospect of removing the continually haunting specter of unemployment, with its concomitants, hunger and misery and hardship for the family. Further, we seem frequently to forget that if the prices of things are forced upward by fancy hourly wage rates, the average family suffers badly, because such things get beyond the reach of the family income. Consumption of these things is restricted; this diminishing production causes unemployment, and unemployment destroys purchasing power. Thus a vicious circle is constructed.

SUMMARY

The purchasing capacity of the individual depends not only on his annual income, but fully as much on the cost of things he must buy.

It is an economic absurdity to discuss purchasing capacity exclusively in terms of hourly or daily or even weekly wage rates. A family lives on an annual basis. The children eat and wear out shoes every day in the year. Steady employment is much more important than hourly or daily rates.

The only way to create steady employment is by producing goods continually at a cost that will make it possible to price them to "meet the market".

Short hours, or short days, or spread-the-work schemes, that make costs too high, and accordingly make prices too high, restrict demand and thus cause unemployment.

Purchasing capacity, and accordingly employment, are increased by increasing a man's real annual income and by reducing prices.

CHAPTER XVII

THE FARMER'S PURCHASING CAPACITY

THE early history of man's industrial progress is written mainly in terms of agriculture, which has always been more important economically than the sum of all other human occupations. Its importance is due of course to the fact that it ministers directly to man's most vital necessity, food.

We do not know when agriculture began, or in other words when man ceased merely to search for food, or to depend for it on domesticated animals, and began to raise it from the soil. In its earliest forms, when there was no attempt to renew the fertility of the soil, and successive crops could not be raised on the same land, it was a mere incident in the nomadic or pastoral life. The first great step in industrial progress appeared when agriculture became stabilized as the leading human occupation. This came with the advancing knowledge of fertilizing methods and led, as a consequence, to the definite establishment of land values.

Agriculture not only provides the substance for industrial progress, but it has also at all times had a remarkable influence on the well being of all other industries. Industry, in general, rises and falls in its cycles

of prosperity and depression as agriculture thrives or languishes.

In attempting to explore the purchasing capacity of the agricultural community, we have chosen an analogy that resembles the problem of a typical farmer. The main elements of the farmer's problem are displayed in Figure 42.

We have taken the gross income of the farmer, arising from the sale of his crops, at \$6,500.00. If we refer to the figure and the series of tanks, we can observe the various operating expenses, depreciation, taxes, and so on, that we have set forth showing the disbursement of his income. The reader may quarrel with the specific figures if he will; perhaps every farmer does not expend his income in exactly these proportions. We are only concerned with getting at a few principles in the farmer's problem. The main thing we are trying to determine is the relation between his gross income and his expenses. Whatever is left after his expenses have been paid makes him a customer for other industries.

In a nut-shell, the logical solution of the farmer's problem also provides a sound solution for the other industries that are so dependent on the farmer's welfare. If the farmer, after paying his expenses and paying for the ordinary necessities of life, like clothing, medical attention, and insurance, can increase the income available for purchasing some ordinary comforts of life, his standard of living will not only be increased but his greater purchasing power will also provide an

Value	280 Acres	\$14,000
Mortgage		7,000
Equity		7,000
Indirect taxes		amount to
Direct taxes		amount to
		<i>Total</i>

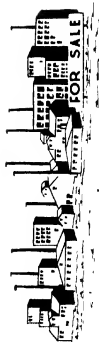
Equity	1,000	
Indirect taxes	amount to	\$875
Direct taxes	amount to	100
	Total	\$975

HIGH TAXES
HIGH PRICES FOR WHAT HE BUYS

Purchasing capacity is impaired because of the lack of balance between the protected prices of the manufactured goods he buys and the low world prices of the commodities he sells.

—VERY LITTLE LEFT FOR THESE—

BOOKS
 AUTOMOBILE
 RADIO
 BATH ROOM
 HEATING SYSTEM
 COSMETICS
 CLOTHING
 JEWELRY
 MUSIC
 TRAVEL
 MANAGEMENT
 ELECTRIC LIGHTS
 EDUCATION &
 ADVANCEMENT
 BUSINESS





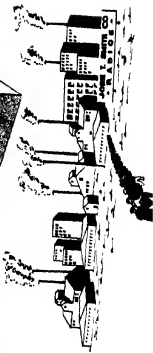
The **FARMER'S**
PURCHASING CAPACITY
\$6500 GROSS INCOME PER YEAR

260 Acres	
Value	\$14,000
Mortgage	7,000
Equity	7,000
Indirect taxes amount to	\$600
Direct taxes amount to	\$570
Total	\$1,170

LOW TAXES
LOW PRICES FOR WHAT HE BUYS } MEAN

[Low taxes and moderate tariff make for low prices of the goods he buys. His purchasing capacity is expanded and thus the standard of living of others as well as himself is raised.]

- IRON, COPPER
- RAILROADS
- STEEL
- BATHING SUITS
- SHIRTS
- COATS
- JEWELRY
- TRAINS
- TRUCKS
- ELECTRIC LIGHTS
- TELEPHONES
- FRIGIDATORS



important contribution to the employment of men in other industries.

Thus we have the same general elements in the farmer's problem as in any other individual's problem involving purchasing capacity. Purchasing capacity depends on the relation between income and the cost of things. Purchasing capacity is directly proportional to income and inversely proportional to the cost of things. The farmer's income depends primarily on the amount of wheat or cotton or tobacco or corn or hogs that he raises. His income, of course, will also depend on the prices he receives for his produce.

These prices depend on the supply and demand for these world commodities. Accordingly he might better push on with what he can produce. His efforts will have nothing to do with price, or at least will be only an incident in the price available at the time the product is ready for the market. In other words, he might better produce as much as he can and in this way obtain his maximum income out of the product or commodity.

Obviously, in the case of wheat for example, the price at harvest time is the result of many factors over which the individual farmer can have no control. Therefore the total income to the producer will be increased if he increases his production. The individual producer obviously will suffer if he cuts his production, because if he raises 10% fewer bushels of wheat he will get 10% less money at the time his product is available for the market.

If the reader is interested in clinching this point to his own satisfaction, he might review the previous

chapter on international trade, where we discussed the effect of world prices on domestic prices of commodities. He might also refer to the chapter on price equilibrium in the distribution scheme for what can and what cannot be done about commodity prices.

The soundest solution of the farmer's problem, both for his own self-interest and for American economic interests generally, might be expressed as follows:

1. The farmer should raise all the produce he possibly can. Further, he should reduce his unit costs all he can.
2. Our Government should continue aggressively its present constructive policy of opening up his markets abroad, particularly with the aim of removing the huge carry-overs we have had during the past few years that crush commodity prices.
3. The farmer's taxes should be reduced.
4. The farmer's interest charges should be reduced.
5. The farmer's prices for tools, supplies, equipment, and consumer goods should be put in balance with the prevailing price levels of commodities. Lowered tariffs will help him to buy at lower prices, just as they will help him to sell more of his products abroad.
6. The transportation rates on farm products, that impede the free flow of these products to the market, should likewise be put in balance with other price levels. In general everything possible should be done to decrease the margin that exists between what farm products bring at the farm and what they bring in the retail market.

We have seen that the farmer's problem, in its essence, is just like the problem of every other worker

and producer. He must increase his *real* income, and to this end what he gets is no more important than what he pays. If we consider his problem from both these angles, we shall see that he, even more than any other producer, has a vital stake in freer international trade relations.

Obviously high tariffs cannot help him, for how can they when he has an exportable surplus which must sell at the world price? But a general lowering of duties would be bound to help him—in more ways than one. They would help him by giving him wider markets. Exchange is always reciprocal. More imports would mean more exports, for these imports would mean that foreign countries would get more of our money with which to pay for the products of our farms.

The advantages of exchange are likewise reciprocal. More imports would mean lower prices for many things the farmer buys, and thus help him in cutting his costs. Freer world markets would tend to create a more stable price-equilibrium, which would insure a more favorable balance between the farmer's income and his costs. Give the farmer a chance to buy whatever he needs or wants at a fair price, and the prices he gets for his own products, whatever they are, will be fairer to him than they are today.

SUMMARY

The farmer's standard of living depends on his annual income and on what this income will buy.

His annual income depends on how much he can raise and what he can get for it.

He will raise the crops—he will take care of that part of the annual income.

He will be glad to take the market prices for his crops, too,—if we open the market for them.

The farmer's market can be remarkably expanded in two general directions: first, abroad, by supplying food that is badly needed in many countries throughout the world; second, at home, by making farm products available to our large industrial and commercial centers at prices that express a much narrower gap between at-farm prices and delivered prices; that is, at prices that reflect much lower charges for transportation and the other elements of distribution.

What the farmer can buy for his income—the other important factor in his standard of living—can be increased by reducing his taxes, by lower interest rates, and by lower prices for equipment and consumer goods. Here also he can be immensely helped by greater freedom in international trade relations.

By helping the farmer we can help all other industries. As we help him to increase the margin between his income and his expenditures, we create additional purchasing capacity, which can express itself in creating employment in all other industries.

SECTION III



THE NEW AMERICAN
CAPITALISM

CHAPTER XVIII

THE IDEAL ECONOMIC AMERICA

STANDARDS OF LIVING

THE standards of living of a people in a particular geographical area or country depend primarily upon the resources available in that area—agricultural lands, water-power, minerals, forests, coal, oil and so on. These natural resources constitute the *basic subsistence*, without which human life would be impossible. It is on them that we must depend for the life necessities: food, clothing, fuel, shelter. It is in them alone—the natural gifts of mine, field, forest and power—that we can find the foundation on which to build an industrial civilization.

The second factor that affects the average standard of living in any country is the population, or the total number of people who must divide the available subsistence. The low living standards in over-populated countries like India and China illustrate the operation of this factor.

The third factor is the character of the people; their energy and resourcefulness. And this, in turn, seems to hinge largely on a natural element, the climate. Their energy and resourcefulness (labor and brains) are im-

portant in converting the available natural resources into the necessities and comforts of life.

A fourth factor is the economic age of a country. This factor is important in making comparisons of the economic life of European countries with the life in America. The older European countries need to employ much less energy than America in constructing houses, public buildings, parks, roads—these improvements have been there a long time and make a considerable and important contribution to contemporaneous standards of living. On the other hand, America's economic youthfulness should present a great advantage because the population of any geographical area has a tendency to devour the resources as time goes on, and subsistence become scarcer as the economic age of a country increases. Unfortunately, however, we cannot record as much of an advantage for America in this respect as we should like because we have been the classical wasters of resources in all history.

A fifth and final factor is the state of the industrial arts in any country, at any given time. The effects of this factor in reducing the costs of production, and thus raising the standards of living, have become evident the world over since the advent of the industrial age. In our own country this factor has attained a special intensity owing to the existence of our vast domestic market, which has naturally stimulated the development of the highest efficiencies in mass production.

THE IDEAL ECONOMIC AMERICA

Now let us see what we could do to improve the standards of living in America. We have the resources, we have the energy—we are inherently fond of hard work—and we have our own genius for organization and the use of tools. We have also, and most happily, leaders strongly sympathetic with the broad objectives that lie before us, and ready to seek, with aggressiveness and intelligence, the ends of social justice and high individual living standards that these objectives imply.

Working within the pattern of our own tradition, the possibilities inherent in The New American Capitalism are presented here, visualized in terms of the conditions which would prevail,

In the Ideal Economic America:—

The American consumer, his rights, his welfare, his satisfactions, his standard of living, would become the governing lens through which our economic problems would be viewed.

Our previous delusions and hallucinations about American prosperity would be replaced by a critical review of what the average American family has to eat, and to wear—and the kind of home in which the family lives.

Acceptance would be made of the classical and common-sense fact that low prices are an index of plenty—that plenty is an obvious concomitant of a good standard of living. Scarcity means a pinch in the family enjoyment of food and clothing and shelter. Plentiful commodities are God's own blessing in any country—and in this respect America

finds herself thrice blessed. The prices of these commodities are often low indeed, but the great difficulty arises not inherently out of these low commodity prices, but out of the high taxes and high rates of everything else to be exchanged for these commodities. These taxes and rates and prices would be put in balance with commodity prices, and we would live in a land of milk and honey!

In the Ideal Economic America:—

Acceptance would be made of the fact that the way to create employment is to create purchasing capacity for the products we have to sell. Here classical economics comes into blessed coincidence with the wisdom accumulated by successful merchants and manufacturers; desirable or necessary consumer goods will always sell if the price is attractive.

Acceptance would be made likewise of the fact that the gold prices of wheat and cotton and meats and oil, and of any of our commodities of which we have an exportable surplus, are *world prices*; and that, in order to increase the purchasing capacity of our prime producers, we must reduce the burden of their taxes, their interest charges, their rates, and the gold prices they pay for consumer goods.

Facing the inevitability of the facts just stated, we would get our manufactured goods down in price to world price levels.

In the Ideal Economic America:—

It would be understood that exported goods or services or gold must be paid for in goods or services or gold; that an excess of imports over exports is inevitable for a creditor nation; and that through such imports the American consumer would have available the unlimited variety of desirable products that could be shopped for throughout the

world. It would be appreciated, likewise, that no nation can press for payment of international debts on the one hand, and, on the other, take steps to shut off the debtor's goods, the only means by which payment can be made.

Fear of foreign competition would be replaced by a confidence that we can challenge this competition successfully with American genius for organization and the use of tools.

In the Ideal Economic America:—

Transportation services would be offered to the public and rates would be established by a system of free competition. It would be recognized that other schemes of extreme government control and set rates and practices, tried the world over by practically every country, have been historically a distinct failure, resulting, through the throttling of distribution, in stagnation of economic life.

A golden age for American youth would be dated from the day child labor was abolished.

Regard for the conservation of the nation's natural resources would protect this wealth from the greed of exploitation and would preserve it in adequate measure for the common good.

In the Ideal Economic America:—

Currency experiments would be tabooed. We would accept the accumulated experience of all the ages that industry and commerce can function properly only through the normal process of exchange, and that this normal process demands sound money, based on the established and international uses of gold.

Concentration on new money *schemes*, as the means of effecting prosperity and raising standards of living, would

be transferred to the processes of production and distribution. We would learn the great lesson that it is only through advancing efficiencies in these two fundamental processes that we can hope to advance the material standards of human life.

Stable money, and a sound fiscal policy provided by the government, would remarkably decrease the fluctuations in the price levels, and accordingly men would be challenged to earn their living and to make their fortunes in the normal services of production and distribution, rather than in speculation on frequent re-adjustment in the price structure.

An appreciation would be developed that a bond or security does not become a bond or security just because it is called so and is printed on fancy paper. It would be appreciated that its only security is the provision for its final liquidation or payment in gold, goods or services.

An adequate technique would be developed for financing the production and distribution of consumer goods, in contrast to the antiquated belief that such technique should be concentrated on new capital ventures. Home building would be adequately financed.

In the Ideal Economic America:—

Steps would be taken to lighten the burden on industry of the cost of government. It would be learned that rates of taxes that are too high defeat all objects of taxation—that industry becomes impoverished and ceases to have any capacity for yielding revenue. It would be seen that when the government rates go up too high, the actual taxes collected go down.

The basis of our philosophy of production and distribution would finally be conceived as the ideal of obtaining not only adequate and even luxury standards in food, clothing and

shelter for our people, at prices within their means, but also of assuring the individual a margin out of which his own security and the security of his family could be guaranteed.

In the Ideal Economic America:—

Free and equal opportunity would be kept open everywhere, and such rewards as are actually accumulated by hard, intelligent work would be protected from appropriation by the government or others.

The growth of financial, commercial and industrial institutions would be encouraged to the extent that this growth is based on service to the public—to the American consumer. No institutions and no groups could sustain their existence or feed their growth by imposing tribute, either directly or indirectly, on the general public.

The economic structure would be sustained and cemented by a re-affirmation of faith in the old American tradition of sweat and toil, the price the American people are willing to pay for freedom and a comfortable home.

In the Ideal Economic America:—

The man in the street, the administrators of government, finance and industry, would come to understand that the patterns of economic life, and the functioning of economic units and groups, are universal in their general characteristics and classically similar throughout history. It would be appreciated that the fundamentals of man's working and fighting for a living are never altered by changes in the complexions of governmental or political structures—that they are changed only by the introduction of better tools for working and better weapons for fighting.

Governmental, financial, commercial and industrial administrators, in this ideal State would know what capitalism is

—and particularly American Capitalism—would believe in it, and act their faith. They would know that American Capitalism does not favor the concentration of wealth or political power in the hands of the few. Thus an aggressive retreat would have been accomplished from the State Socialism that gradually has been shackling us in recent years, increasingly impoverishing us, and restricting our inalienable rights to individual liberty.

The classical patterns of capitalism, with their human implication that “what I worked for and saved is mine”, would be accepted because of their inevitability.

In the Ideal Economic America:—

It would be understood that the redistribution of wealth, the major demand of nearly all industrial radicals, is going on all the time through the natural operation of economic causes.

It would also be recognized, however, that the road to higher human living standards is not through the redistribution of existing wealth, but through an increase in the sum total of this wealth, for it is only thus that we can achieve the progressive elimination of human want and privation.

It would be accepted that the means to this end can be found only in the advancing efficiencies of production and distribution, which lower prices by lowering costs, and thus tend steadily to provide more and more of everything for everybody. The world will hear less complaint concerning the relative wealth possessed by this one, that one, or the other one, in the happy days when *everyone* has enough.

CHAPTER XIX

ECONOMIC FALLACIES

FALLACIOUS beliefs, many of them deeply rooted in the minds of the American people, have played and still play a large part in preventing the nation from attaining the truly high standard of living that its resources, plants, equipment and advanced technology make possible today.

There is usually a mixture of truth and falsehood in every fallacy. There may be lots of truth in a fallacy—enough truth to make the error dangerous or costly.

It is a curious fact that mass repetition of a statement often clothes it with apparent truth. The danger latent in every fallacy is only revealed when what is believed to be true is experimented with in practice. In economics this has been demonstrated time and time again, and it is only when some great upheaval arrives that the hollowness of many fallacies is disclosed.

We list some of these economic fallacies here, for the reader's own analysis and judgment:

It is fallaciously believed:—

That over-production is the main cause of our economic ills, in the face of millions of Americans in need of the very things that are said to be over-produced.

That labor has benefited or can benefit from labor organization policies that set hourly or daily rates so high, and standards of daily output so low, that the costs of these products are entirely out of reach of the working classes. A six-room house, of the type and quality that any American family has the right to aspire to, is the best example. Few carpenters can afford to own one!

That a short-hour (6-hour) day, or short-day (5-day) week, is a desirable method of spreading employment. Short time spreads employment on a poverty level that soon defeats itself and results in graver unemployment.

That we need some new invention to revivify the industrial scheme, something new to start the wheels going—in face of the fact that a great percentage of our 130,000,000 people are short of food, clothing and shelter.

It is fallaciously believed:—

That women know nothing about economics. Women accumulate far more experience in buying than men. Women have far greater practical wisdom about what purchasing power is, and what goes to make it, than men. Women represent the consumer interest, often absurdly forgotten in men's highly intellectual discussions of economics. Their instinct for low prices is the key to the only sound economic approach.

That the salvation of the railroads depends on stifling other forms of transportation, by water and road, rather than on putting their own houses in order, competing vigorously on services and rates, and thereby contributing wholesomely to the building up of the general economic welfare of the country.

It is fallaciously believed:—

That the refusal to take any goods from other countries is an economic advantage.

That a "favorable" balance of trade is favorable to living standards. In reality it means that we are shipping out more goods—more real wealth—than we get back.

That imported goods create unemployment, and thereby lower the standards of living. In point of fact, such importation means the setting up of credit balances here which enable foreign countries to buy our surplus products.

That prices of the world's basic commodities, like wheat, cotton, copper, rubber, sugar, can be controlled.

That selling one's products abroad in depreciated currency is an economic advantage—whereas it is just another form of pricing the goods below their real or economic value. It is really an ostrich manner of cutting the price.

That America or any other country really *can* go off the gold standard.

It is fallaciously believed:—

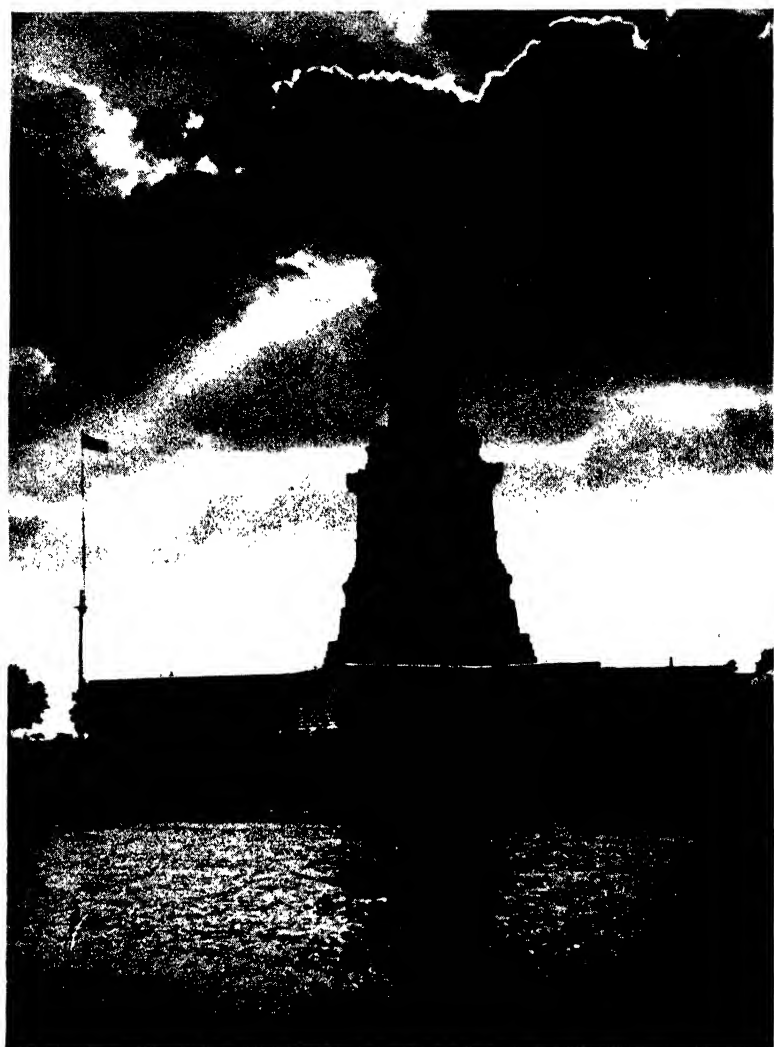
That the government can enter into all sorts of economic activities (outside of its natural sphere of security and defense), that it can go into finance, commerce, transportation, industry, agriculture, without pushing private capital and labor and brains out of these activities, doing the job less efficiently, making the goods and services more costly to the American consumer, burdening the balance of industry with high taxes, and finally lowering living standards throughout the country.

That the government can subsidize any industrial group without collecting the subsidy from the rest of us in the form of taxes.

That profiteering or racketeering schemes can be practiced by any economic group without the rest of us paying for them.

That economic life and economic systems can be changed simply by changing their names.

That a social or political revolution is the only means of redistributing wealth, in face of the observation we make from time to time in capitalistic America that wealth undergoes a huge redistribution in times of inflation, when we create hundreds of thousands of new rich, and in times of deflation when we annihilate the fortunes of hundreds of thousands, including many who were supposedly impregnable; further, in face of the observation we make in "normal" times, that competition is the surest way of effecting the redistribution of wealth.



CHAPTER XX

POLITICS, GOVERNMENT, AND ECONOMICS

MEN go on from generation to generation, earning their living in very much the same manner.

Notable changes and improvements can be credited from time to time to the scientists and engineers, and in general to improved technology, but economic laws and the processes of production and distribution seem to display a lovely contempt throughout history for changes in the political complexion of government. If we travel about the world today and are fond of observing with our eyes, we will note that economic laws are universal in their actions and reactions, and display everywhere this same contempt for the political complexion of the country in which they are operating.

Farming, spinning cotton, weaving cloth, making shoes, building ships, manufacturing motor cars, operating railroads, department stores, fruit, vegetable, meat and fish markets, and trading posts, show no more variation in their character in different countries than can be discovered within the boundaries of one country. In other words, they show no variations whatsoever that can be ascribed to political boundaries. These processes of production and distribution vary only according to

the degree to which methods have been improved through the use of tools and technology.

Wherever we go today, in democratic America, in republican France, in imperial Japan, in monarchistic Great Britain, in communistic Russia, or in fascist Italy, we shall find men earning their living by the sweat of their brows and according to the same universal patterns of production and distribution. Economic processes are classical, universal, and inevitable.

Politicians, meanwhile, pre-empt or achieve authority in government under one economic plea or another to the masses. America has no monopoly on "the full dinner pail"; it has been used continually and for generations throughout the world. Symbols for better food, clothing and shelter are always useful in inspiring either bloody or bloodless revolutions, because history shows that empty bellies provide the best background for political change. We have observed, however, that the pictures the politicians paint that are bulging with full dinner pails for the workmen, and with pots of gold for the business men, have strange or even weird economic colors. In fact, the programs that are projected for taking us all into the land of plenty are often quite openly in defiance of some very old-fashioned economic laws.

There are only three real and important ways in which any government can help industry, agriculture

and mining—first, by keeping taxes at a minimum; second, by establishing the rules of the game among the various competing economic groups, and undertaking to see that the game is played fairly; third, by maintaining such free play of economic forces as will protect the interests of consumers.

Essentially the function of government may best be expressed in the simple word *protection*, however this protection may be applied. It is impossible to conceive of any kind or form of government which does not have for its object the protection of something or somebody, whether in practice this protection is enjoyed pre-eminently by one, by a few, by many, or by the whole human society. Even in the worst of governments it must be extended in some degree to all, for it is only through an orderly state of society that the interests of those in power can be protected and secured. All theories of governmental objectives, as well as all practices, simmer down, therefore, to the one word *protection*.

In the ideal economic state, the government sticks to its natural functions of maintaining order and security at home, and providing a defense against external enemies. By limiting the extension of its functions, and by performing its own normal functions with thrift, it avoids laying on productive industries the heavy hand of taxation that has been the cause of the traditional clash between government and industry in all history. Taxes that starve or crush or dry up industry—the

thread of this color has woven itself with tragic irony into all of the relations of industry and government.

In the ideal economic state, steps are taken to see that no economic group, in pressing for its own advantage, does anything inimical to the general economic progress of any other group or of the nation as a whole. Every economic group is challenged to play the game fairly with the others.

In this ideal economic state, the consumer's interests are placed above all else. A consciousness is maintained of the fact that only a vigorous production or transformation of natural resources into consumer goods and the efficient distribution of these goods can create a high standard of living. It is realized that what is inimical to the interests of the consumer is ultimately inimical to the interests of industry. Profiteering, charging more for goods or services than they are worth, is discouraged. Racketeering, the levying of tolls on industry for no service at all, is banned.

THE NEW DEAL

In the present plans and purposes of our government with respect to industry we may recognize many vital and constructive features. Chief among them, and containing all the rest, is the unquestionable fact that the whole aim and purpose of these plans is *humanitarian*.

Prominent among these humanitarian plans is the determination to abolish forever that curse and shame of modern industry—child labor. This evil, which began late in the eighteenth century, with the very ad-

vent of modern industry, has never yet been fully eradicated from the industrial system. Let us all join, therefore, in the fervent hope that at last the hour has struck to free the children, and *all* the children—that hereafter such conditions will be nothing but a painful memory.

Conspicuous also among constructive projects are the new plans of government in the sphere of *conservation*, with specific measures for reforestation, oil conservation, and the like. Here we regress from every present trouble to the primitive nourisher and sustainer of all industry, to the great Earth Mother herself, whose gifts are the first and absolute necessity, not only to all of those now living, but to all who shall come after us, even to the last generations. Let us hope that out of our present troubles will evolve—in the New American Capitalism—a new national conscience on this subject, and that those who waste and squander these gifts may hereafter be known and identified as public enemies.

Underlying all these governmental measures we may discern the general purpose to establish *human justice* in industrial relations; to give every one a square deal—a purpose to which none of us can be indifferent. In the case of child labor and conservation there can be no question that government is acting within its proper function, for the purpose of government is always *human protection*. When, however, government advances beyond this province and undertakes, directly or indirectly, to determine wage rates, labor hours and commodity prices, there is room for legitimate ques-



tion, for when government tries to do these things it begins at once to tamper with that dangerous buzz-saw known as economic law. There is ample warrant in past experience for the view that such measures, in the long run, will harm more than they will help.

SOCIALISM

There is hardly space in this book to go at length into the relationship between politics and government on the one hand and economics on the other. However, we cannot refrain from touching a bit on one of the main issues in this relationship in current times. We refer to the remarkable drift toward socialism in America during our present generation.

During the past ten or fifteen years our intellectuals in America have been creating for us an enticing picture, aimed at convincing us of the virtues of collective ownership of land and capital, and the public collective management of all industries. They have avoided the use of the word "socialism" for identifying the scheme of political economy they favor, because this word has been in rather bad repute in America. However, there is no use in our having any illusions now. We have gone amazingly socialistic in our theories and practices.

Elsewhere in this book we have outlined what we consider the ideal American capitalism, with its implications of the rights of private property, of equal op-

portunity, and of political freedom. We believe that the New American Capitalism, practiced at its best, could protect us all equally well as individuals from the overlords of industry and finance or the overlords of the State.

The intellectuals who have such a high regard for socialism are harping constantly on the evils and sins committed by individuals through their private control of capital. They try to convince us that these evils would suddenly be eliminated if we put other individuals in control of the same capital and called these new administrators part of the State. But whatever our scheme of national government, whether socialistic or capitalistic, the system will be no better and no worse than the cross section of the characters of the men who administer it.

Whatever the failings of the traditional American system of government are or have been, at least this system of government has worked better and provided happier political and economic conditions than have been revealed in any other age or country in the world's past history. This experiment has been going on for about 150 years, and, judging by what the other schemes abroad have to offer at present, it is much too soon to abandon the American system or the American Tradition.

It would be far better to abandon these socialistic doctrines with which we have begun to experiment, and to base our future national development on the historic foundation of Constitutionalism.

CONSTITUTIONALISM

Whatever degree of stability we have achieved in America in the understanding and practice of Constitutionalism is due in major part to the steady adherence of the masses of our people to certain principles and standards of government. No government is morally any stronger than the people who sustain it, and even if a constitution were the last word in human wisdom it would be no better than a scrap of paper without this sustaining force. In the final resort, therefore, it is not in the form of government, but in the attitude of the people toward their government, that we must look for those conserving forces in our human society. It is only through this same spirit and attitude that we can hope to attain the same relative stability in all our institutions.

The existence of this spirit, which we might call constitutional morality, is undeniable, but its exact definition is not so easy. Evidently it is not a mere submissive obedience to government and laws, for if this be a virtue it is one that any slave can possess. It cannot mean merely a love for order and a genius for ordered government. The Romans had this genius; among modern nations Imperial Germany possessed it to a pre-eminent degree. But in neither of these cases do we find the illustration that we seek.

Democracy means, broadly speaking, the rule of the majority, and inferentially the rule of the masses, who constitute the majority in our human society. Our own

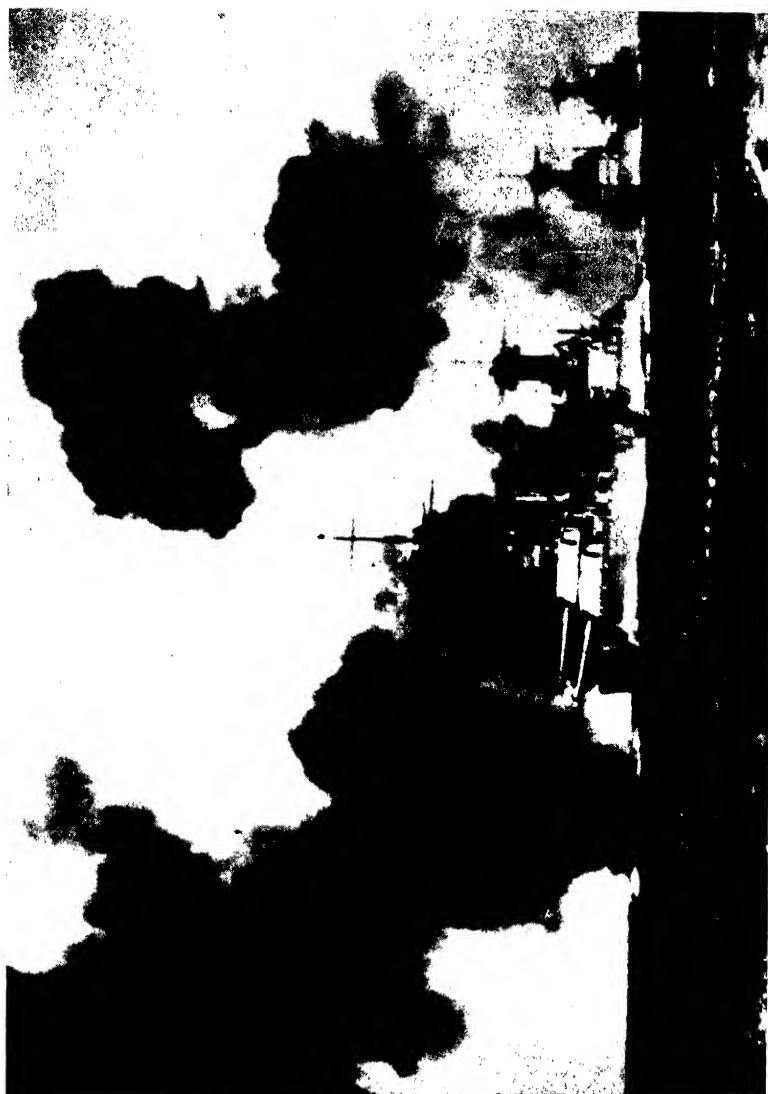
masses have indeed manifested, as a rule, the spirit of constitutional morality, but in this they have differed fundamentally from the mass as it reveals itself in history.

Constitutional morality can only be defined as the concrete application to human relations of the fundamental principles of justice.

Constitutional morality is more than democracy; it is the moral sanction of democracy. It is more than love for order; it is the sole justification of order. It is more than submission to law; it is the spirit which alone gives such submission a true ethical value. It is the underlying essence of all true community virtues, without which no form of association can have any real moral worth or guaranty of permanence!

Let us hold fast to these principles of Constitutionalism when we attempt to appraise any and all arbitrary plans for our economic betterment. We may grant that these plans may be humanitarian in motive; that their sincere and honest purpose is to provide better material living conditions for all. The worthiness of this purpose, however, cannot exempt these programs from the only sound and final moral test. Plans of this kind, conceived and executed in the spirit of autocracy, even if successful in accomplishing their purpose, could have only one result. They would reduce everyone to a state of economic dependence on government. This in effect would be nothing but a new form of economic slavery, a slavery none the less real even if the slaves were well kept and well fed.

Against economic security, purchased at such a price,



common sense rebels, constitutional morality rebels, the American Tradition rebels. Even if the price were paid, the security would be more than doubtful, for such conditions would mean the shackling of individual initiative, individual enterprise, individual freedom, of every factor that past experience has shown to be essential to sound industrial growth.

Let us exact from our government everything to which the individual and all society is entitled in the sphere of *human protection*. But let us insist that government shall not overstep these limits, that it shall not attempt through its own fiat to direct the course of economic law, that it shall impose no shackles on industry that may limit its capacity for greater human service.

THE NEW CAPITALISM

In considering the relations of industry and government, it is essential that we sum up the ideal of what we have called the New Capitalism.

This ideal capitalism is based on the assumption that *what I work for and save is mine*. The preservation of this ideal demands that we ever hold fast to the principle of *fair play*. It is here that government comes in; it is only here that government can help us. It is not the legitimate industrial motive, but the deviations from this motive, deviations that violate economic law no less than fundamental human justice, that government can stop—and must. Government fulfills its purpose, and its entire purpose, when it compels each and every one of us to play the game fairly. This, in its essence, is

what we mean by the governmental function of *protection*, as applied to all the activities of industry. When such protection is furnished, then let the best man win.

Capitalism is and always has been the root-essence of all our industrial institutions. What we need at present, more than ever before in our industrial history, is a *redefinition* of this term; one that will conform to these ideals; one that will clear up all of the obscurities that now prevail. There is no term at present in the whole industrial vocabulary that is so commonly used, so much abused, and so little understood. Some of our "intellectuals" would have us believe that the term "capitalism" means an economic scheme that favors concentration of wealth in the hands of a few. If this definition were correct, it could mean one thing only, that our present capitalistic system is bent on self-destruction; for such over-concentration would destroy human demand, it would destroy purchasing power, it would destroy everything on which industry lives. And it could end only in the destruction of capital itself.

The truth is that our capitalistic system can thrive only through dissemination—in other words *distribution*. Our common habit is to think of distribution only in terms of products, but the purpose of the New Capitalism must be the distribution of *everything* essential to the industrial movement, and above all capital itself, for it is only thus that it can distribute the earning opportunity, the earning power, and hence the purchasing power, without which industry would languish. The ideal of the New Capitalism is not only to distribute

every one of these things, but finally, through the same process, to increase the *sum-total* of them all. It is only through this process that the American ideal can be realized; only thus that our industries can grow; only thus that all of our people can advance to those higher standards of living that are both the support of industry and the justified purpose of all legitimate industrial effort.

This ideal distribution of products and capital could be achieved in far greater measure through a political system built with the substance of wholesome competition and deep respect for economic laws than by the means into which we are now drifting of extreme governmental control.

Here another thought seems important. It is possible that some may read into these views a plea for the return of the old *laissez faire*.

This old industrial system went long ago to a dishonored grave. It deserved to die, for it violated human justice. It gave human protection to no one, not even the little children, who were its principal victims.

Yet industry grew and flourished under this same *laissez faire*, which proves that, with all its iniquities, it must have had some constructive feature.

It is not hard to find this feature. *Laissez faire* put a premium on free human initiative. And this was the secret of its strength.

What the New Capitalism envisages is a new and



reformed *laissez faire*—one that will carry its own insurance against all the evils of the past.

The New Capitalism does not want governmental direction of industry, for, admitting all its past mistakes and blunders, it believes that it knows, better than government, how to plan, how to produce, how to distribute, how to perform every industrial function. It welcomes, however, the *protection* of government—for itself and for every man, woman and child; not the kind of protection that consists in the bestowal of special favors, but the kind that forbids those unjust and destructive things that none of us should do. But when it comes to the constructive things, the things that only industry can do, it asks only one boon of government—that it leave us as free as we have been in the past to work out our own destiny.

In this book we have presented an outline of the ideal economic America that might live happily under an economic scheme built with the substance of traditional American ideals, real economic laws, and toil.

These political ideals envisage a government that would discard socialistic experiment and keep faith with the spirit of the Constitution, which provides the two fundamental American precepts—broad individual opportunity, limited only by energy and ability, and that “personal capitalism” which says “what I work for and save is mine”.

Paternalistic only, as it would guard humanitarian principles and conserve our natural resources, the gov-

ernment would limit its activities to maintaining an orderly society, fair play among economic groups, and protection against outside enemies. Its wise political leaders would recognize and be guided by the principle of economy in government and a low tax burden on commerce and industry.

The interpretation of economic laws would be based firmly upon the rights, welfare, satisfaction and standard of living of the American family. The scheme would provide us with a sound gold currency, and government and private obligations would be adequately supported. Contracts would gain a new sanctity, and the word or bond of individuals and institutions, including the government, would be honored.

A full flow of trade, regulated only by the law of supply and demand, and the principle of payment for goods, services or gold, with goods and services as well as gold, would be accepted in the interest of the American consumer. Low prices, with taxes and rates in balance, would mark the road to greater employment and increased purchasing power. The fallacy of overproduction would be discarded and the principle would be embraced that hard work, not short hours, is the true means of creating wealth and the living standards we all are eager to provide as the basis of the American home.

CHAPTER XXI

A PLEA TO THE LEADERS OF AMERICA

WORKING with new and more efficient tools than ever before, yet working within the age-old economic patterns of production and distribution, the men of the land go on.

Men toil still in the markets and the grain fields; the women plan and work within the homes. Anxious in the face of the day's new problems, harassed and burdened, the people of America move onward toward their destiny, living by a faith and method that is as old as the nation itself.

What, then, will be their destiny on the road ahead, and how can one set the guide-posts that point The Main Road, the way out from our present economic confusions?

No one needs to plot such a road for the individual American. He will plot his own road. He will live by simple rules, the things that his own home-spun common sense will tell him—knowing within his heart that he can't spend more than he gets, that he must take what he can when he brings his products to market, that price-fixing is a hocus-pocus, and that he will sell more

and make more if his real costs and his prices are low. For his own part he will buy where the best is cheapest.

He will know, too, that any exchange with his neighbors must be reciprocal, and will sum it up by saying, "You can't get something for nothing". He will know that "Get rich quick" is a joke, and that a man must eat his bread in the sweat of his face, as he did in the days of Adam.

Working, saving and thinking, he will know that America does not seek a political or social revolution. He will know that he, himself, wants only to be left alone, to retain his independence and integrity, to work for what he gets, and to be given a fair opportunity to get it and to keep it.

Yet in high places today, these simple concepts are forgotten by many leaders. Faced by the inter-meshed ramifications of the economic system, they seek with deep sincerity and earnestness a course that will ease the problems of the average man. They aim to chart a New Road toward an ideal future. We would not question the earnestness of their hope or the sincerity of their method. They deal with masses of humanity, with a Pandora's Box of problems.

Yet the true answer is already known and available, written in the integrated group experience and wisdom of the American people. Against all new economic schemes there must arise the age-old challenge of the inarticulate wisdom of the average man and woman.

We seek here to make articulate their plea to the leaders of America:—

A PLEA TO THE LEADERS OF AMERICA

To Federal, State and Municipal Governments:

Provide law, order and security, the only functions for which an American government is peculiarly responsible. Take care, or join in taking care, of the sick and aged, but leave the able-bodied man his jealously guarded independence and self determination, the foundation stones on which the American ideal is built.

Take us away from socialism; take us back to the traditional American ideal—equal opportunity, wholesome competition, and fair play.

You have undertaken partnerships during the past seventeen years with the railroads, the bankers, labor, and industry. Only one economic partnership in the American system of government has any validity—a *partnership with the consumer*. From 1916 to 1929 everyone did well, or imagined he did, except the consumer.

For the first time, you have given recognition in Washington to the fact that the consumer and the employee and the farmer are the crucial points in our economic scheme, and you have made earnest efforts to provide a better national economy focused on these points. If you would approach every problem from the viewpoint of the consumer and his interests, you would provide a logical starting point for the only governmental

supervision of business that is valid—the task of keeping the game played fairly. When the consumer fares well, business fares well.

Continue your efforts to get us back our foreign trade in wheat, cotton, meat and our variety of exportable production, in order that we may, as consumers, enjoy in turn the reciprocal advantages of foreign products.

As soon as you fairly can, put us back on the gold standard and sound finance, so that we may know that our work is being rewarded in wages that have a real validity: so that we can make future commitments on a business basis rather than as a gambler's risk.

Balance your budgets.

Cease the absorption of so much credit—and release credit for production and distribution through our banks.

Continue and expand the sound program now under way to conserve natural resources. Guard the real wealth of America against the waster and the exploiter. These things, our oil lands and our forests, are an essential part of our national heritage; their protection is a true function of government.

Reduce taxes. Recognize the futility of whipping a willing horse to death—of raising tax *rates* to the point where they starve the economic body and lower the actual amount of taxes you collect. *Taxes*, like interest charges, can only come out of effective production and distribution, and if you make the rates too high you dry up the spring from which your water must come. You *cannot possibly* collect more than reasonable rates, whatever governing bodies think their power may be,

since you destroy the units or groups from which you seek to collect the tax the moment rates are pushed above an economic level. This is one of the oldest and simplest lessons in the relations of government to industry. The only sources,—farmers, planters, miners, salary and wage earners, industrial corporations,—from which you can collect taxes are those sources that are accumulating a surplus.

Give us more of the inspiration of leadership which has marked our national administration since March 4, 1933, but leave us to work out our own salvation in the light of this inspiration. You found us leaderless and despairing, and you gave us courage and a will to go forward again with new hope and a common purpose. Keep sounding the clarion and showing us the way, but let us gird up our own loins.

To the Bankers:

Come back effectively into the industrial and commercial scene. You are much more capable than the government of guiding credit into really *self-liquidating* functions of production and distribution.

Make real progress in basing credit on human nature and the character of the borrower, the nature and the value of his project.

You, more than anyone else, are able to keep us straight on the fundamental economic point in all credit and interest charges, in all questions of lending money or capital—the point that pieces of paper can be substantiated only by conserving assets, and interest charges can be made available only out of earnings; that earnings must finally come out of human service or labor performed for the lender or for some third or fourth party who returns a corresponding value to the lender. Expressed in another way, interest charges are but the bookkeeping for a surplus taken out of labor or services performed in production or distribution.

To the Manufacturers:

Your capacity to provide employment places a great burden of leadership upon you; yet you have usually had a contempt for politics. The point has been missed that, although industry has continually disregarded politics and government as quite unworthy of the attention of serious-minded men, politics and government have been continually increasing their interest in industry.

This interest has arisen out of two causes: first, the expenses or cost of politics, which must be collected from industry; and, second, the growing magnitude of industry, with its ally, finance, which has challenged the power of politicians—accordingly we see a recurrence of the age-old struggle for power with a modern complexion.

Industry has a huge stake in present-day political conditions and in present trends of political thought, and our business leaders, if they would protect our industrial operations from some of the dangers that are becoming increasingly threatening, must take a more aggressive position in many of these political situations.

In the field of national politics we have seen an amazing increase in the part government is presuming to take in regulating our industries, with the natural corollary of frightful taxes imposed on industry to defray the costs of such meddling.

It may be difficult for you in industry to resist these socialistic trends, but you can refrain from giving socialism your implied or active support. At least you must resist the temptation to dump your responsibilities

on the government, only to find later that the transfer of these responsibilities has established an authority over your industrial operations in functional areas that lie outside the proper sphere of government, conducted according to American democratic ideals.

To the Great Merchants:

Continue, by example, to demonstrate that the mystery of successful distribution can be solved by your philosophy of high quality and low prices.

You know how essential a good price-value relationship is in extending the market, in stimulating volume, and in increasing employment and purchasing power.

Give us the benefit of some of *your* practical wisdom on the law of supply and demand.

To the Business Men:

You are practical economists.

Make yourselves articulate in demanding that economic laws shall have free play.

A healthy economic and prosperous America, with really high standards of living and good business for everybody, can be attained only through following and obeying these laws. Depressions teach us the consequences of ignorance and disobedience.

Keep the intellectual standards and requirements for the administration of business on a high plane. Business practice merits a high professional tone. Why should not business impose on its administrators a professional discipline that demands a knowledge and understanding of the laws of business, and of economics?

Take an interest in politics and the civic welfare. Be more active in your efforts to bring about a sounder relationship between business and government.

To the Farmers and the Cotton Planters:

Your heroic struggles of the past few years have kept the nation fed and clothed.

Continue to produce all you can.

Your prices per bushel or pound will be world prices.

Demand that the prices for the things you buy shall likewise be at world price levels.

Demand that taxes come down!

Demand that the government get out of distributing credit. When the government ceases to absorb so much of the money available by selling its securities to finance many things that will never pay out, there will be vastly more credit available for private enterprise; and your interest charges will come down through the natural laws of competition in money and money rates.

To the Railroads:

Be sure that your rates are at levels that will contribute to the establishment of the necessary price equilibrium.

Trucks, buses and waterways are not inherently competitive to your railroads. You could kill them all off and still fail to prosper unless you made a real contribution to a prosperous America.

Your own earnings can be remarkably improved by transporting goods at rates that do not burden the consumer with excessive delivered costs. *Volume!*

Remember that your prosperity is tied up completely with local and national prosperity, and that anything you can do to facilitate national production and distribution is helpful to your own interests.

Don't give the government any excuse for taking over any more of your problems. If our present trend toward socialism continues, the time will come when you will not have a word left to say about your own railroads.

Yours is the basic responsibility for the provision of national transportation. You have made an enviable record for safety, speed and reliability. Work intensively to discharge that responsibility on your own individual initiative, and in the light of your own far-sighted interests, that are inherently identical with our national interests.

To the Public Utilities:

You are doing a splendid job technologically.

Keep your rate structures in balance with the prevailing price levels.

You, yourselves, will prosper only as the communities in which you operate prosper; only as you help them to expand their use of your services.

To the Building Trades:

Recognize the tremendous opportunity that exists for building houses in America. America could have a truly great boom if you would help to get the costs of 6-room and 8-room houses down to where American families, white-collared men and wage earners, could afford to buy them.

Cut out the fancy hourly wages, restricted outputs, and over-departmentalization of what the various workmen can do—the policies, whether you realize it or not, that keep you idle most of the time.

You Building Men could create employment for several million American workmen—and homes for their wives and families. You must get the costs of labor, material and transportation down, so that American families can afford to buy these homes.

What an opportunity for you to create purchasing power, to make homes available for millions of American families now living in shacks and rabbit-hutches! What an opportunity to make the wheels of industry hum!

To the Marketing Men:

Your profession has the big job to do—distribution.

You have been disappointingly inarticulate during the depression. We have available splendid physical instruments for distribution; railroads, motor trucks and buses, airplanes—what's wrong?

What have you to say about the price structure and price equilibrium?

Everybody's common sense tells him that this talk of over-production is absurd when we know that millions are hungry, that millions of men, women and children need new suits and dresses and shoes, that almost everybody wants a new car, and that American families, too many millions of them, are living in hovels today.

We have been suffering from a break-down in consumption, in trade, in distribution—isn't that where you come in?

What of the price of anything, and its price-value relationship, as the most important factors in making it sell?

Why don't you tell us about this? You could be of tremendous help to industry if you would speak up openly.

To the Economists:

We business men owe a debt to you. You have shown us the absoluteness of economic laws—that business cannot violate these laws without paying the penalty. Perhaps there are other ways in which you can extend this service.

If you would sit down with any practical business man and study his problems at first hand, you should find these ways in plenty.

Take one example—the distribution problem. Facts and figures have told you how distribution costs have increased during the last generation, how they have risen to the point where increased efficiencies in production can no longer absorb them, and how they have even affected the major price trend.

Tell us what to do about it. If you find anything else that is wrong in our policies, tell us that. But be practical in everything you tell us. Help us to reconstruct our economic scheme on premises that are real. Help us to use constructively, through logical interpretation, the great amount of information now available.

To the Educational Authorities:

Preserve for us, and for our children, the "American Tradition", our faith in ourselves and in our country, our heritage of independence and self-help.

There is no excuse for letting economic difficulties muck us down into socialism, fascism, communism, a cult of incompetence, or any of the other so-called new but in reality historically stale experiments in political economy that are now being tried throughout the world.

Satisfy yourselves, as we are satisfied, that the fulfillment of the American Tradition would also provide us with the highest standard of living in the world.

Then make yourselves effective in teaching us, adults and children, just what that Tradition is, and how we can get back on our course in pursuing it and living it.

You are the trustees and guardians of our traditional American political ideals.

The New Capitalism must contain the substance of these, and a re-affirmation of faith in the material, moral and spiritual values of sweat and toil. Further, it can be constructed only by men who have a fearless determination to search for and face the truth in these things called economic laws.



For him,—let us construct the New American Capitalism.

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